

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT

2002

CITY OF GARY

LAKE COUNTY, INDIANA

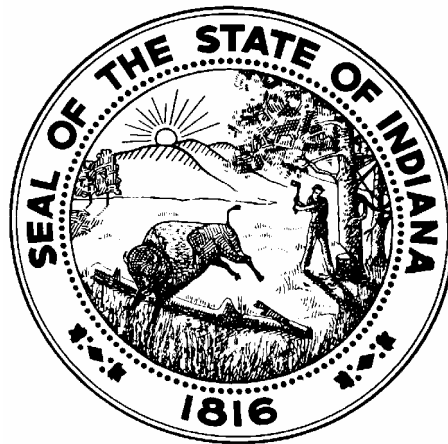


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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Controller	Mr. Hussain G. Mahmoud	01-01-02 to 12-31-03
Mayor	Mr. Scott King	01-01-00 to 12-31-03
President of the Board of Public Works and Safety	Ms. Suzette Raggs Ms. Geraldine Tousant	01-01-02 to 02-25-03 02-26-03 to 12-31-03
President of the Common Council	Mr. Roy Pratt Mr. Kyle Allen Sr.	01-01-02 to 12-31-02 01-01-03 to 12-31-03



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE CITY OF GARY, LAKE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Gary (City), as of and for the year ended December 31, 2002, which collectively comprise the City's primary government basic financial statements. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as described in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City did not capitalize any infrastructure additions in 2002 in accordance with Governmental Accounting Standards Board (GASB) Statement 34. Additionally, not all capital asset additions were properly recorded.

In our opinion, except for the effects on capital assets referred to in the previous paragraph and its effect on the governmental activities, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City as of December 31, 2002, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis, Schedules of Funding Progress, Schedules of Contributions From the Employer and Other Contributing Entities and Budgetary Comparison Schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

In accordance with Government Auditing Standards, we have also issued our report dated December 11, 2003, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

December 11, 2003



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF GARY, LAKE COUNTY, INDIANA

We have audited the financial statements of the City of Gary (City), as of and for the year ended December 31, 2002, and have issued our report thereon dated December 11, 2003. The opinion to the basic financial statements was qualified due to incomplete capital asset records. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2002-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2002-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider item 2002-1 to be a material weakness.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

However, we noted other matters involving the internal control over financial reporting that we have discussed with the management of the City on December 16, 2003. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

December 11, 2003

INDIANA
Management Discussion and Analysis
For the year ended December 31 2002
(unaudited)

The City of Gary management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft, or misuse. City management is also responsible to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles.

The management of the City of Gary provides its financial statements, a narrative, overview, and analysis of financial activities for the fiscal year ended December 31, 2002. While viewing the basic financial statements, it is advantageous to consider notes to those financial statements and additional information furnished to enhance your understanding of the City of Gary's financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the City of Gary exceeded its liabilities at the close of the fiscal year by \$73,073,903.
- Governmental funds combined ending fund balances at the end of fiscal year 2002 are reported at \$39,357,415, of which \$12,662,042 is unreserved.
- At the close of fiscal year 2002, governmental funds liabilities payable from restricted assets total \$4,129,729, which is 18.46% of total liabilities and 14.71% of restricted assets.
- Property taxes were 41.21% of total cash and cash equivalents at the end of fiscal year 2002, for primary governmental activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The purpose of this discussion and analysis is to provide an introduction, overview, and analysis of the City of Gary's basic financial statements. Many of these statements are condensed with the following components:

- (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Government-wide Financial Statements: These statements are structured to present users with a broad overview of the City of Gary's financial position, in a method comparable to private sector businesses, using the economic resources measurement focus and the accrual basis of accounting.

The statement of net assets presents information on all of the City of Gary's assets and liabilities, with the difference between the two reported as net assets. The net assets section distinguishes between invested capital assets, restricted, and non-restricted net assets. A significant portion of the net assets reported, reflect the city's investment in capital assets.

INDIANA
Management Discussion and Analysis
For the year ended December 31 2002
(unaudited)

The focus of the statement of activities is on the net cost of various activities provided by the governmental entity. This statement presents information that shows how the City of

Gary's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flow in future fiscal years.

Both of the government-wide financial statements distinguish the functions of the City of Gary that are principally supported by taxes and intergovernmental revenues.

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government. The general fund is the primary operating fund of the primary government. Also included in primary government are internal service funds, pension trust funds and agency funds activities.

The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable, and from which the component units recovers a significant portion of its cost from user fees and charges. The government activities of the City of Gary include public safety, highway and streets, sanitation, economic development, culture and recreation, health and welfare. The component unit, which functions as a business-type activity, includes the operation of Gary Sanitary District wastewater utility.

The Mayor of the City of Gary is the special administrator for the Gary Sanitary District. The board is appointed by the Mayor, and a financial benefit and burden relationship exists. As a result, the component unit's financial information is discretely presented.

Fund Financial Statements. The City of Gary is required to use fund accounting to demonstrate compliance with finance-related legal requirements. A fund is a fiscal and accounting entity with a group of self-balancing related accounts, which are segregated and used for the purpose of attaining specific objectives or activities in accordance with special regulations, restrictions, or limitations.

The funds for the City of Gary are represented by three categories: governmental funds, proprietary funds, and fiduciary funds. The major focus of governmental and proprietary fund financial statements is on major funds. Major funds are determined based on minimum criteria set forth in GASB statement No. 34.

The City of Gary uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A budgetary comparison statement has been provided for major funds to demonstrate compliance as required supplementary information.

INDIANA
Management Discussion and Analysis
For the year ended December 31 2002
(unaudited)

Government Funds: includes most of the City's basic services and are used to account for fundamentally the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Since government funds focus is not as broad as government-wide financial statements, a valuable comparison can be made with the information presented for governmental funds against similar information presented for governmental activities in the government-wide financial statements. The comparison provides users with a better understanding of the long-term impact of the government's near-term financing. Both the governmental fund balance sheets and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds: the City of Gary maintains two different types of proprietary funds, the Enterprise Funds and Internal Service Funds. **Enterprise Funds** are used to account for the financing of services to the general public, and report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its wastewater management operations.

Internal Service Funds are used to accumulate and allocate costs internally among the city's various functions between departments and agencies, such as group health insurance benefits, and unemployment and worker's compensation benefits. Since these services primarily benefit government as opposed to business-type functions, they have been included within governmental activities in the government-wide financial statements.

Government-wide statements and proprietary funds financial statements provide the same type of information, except proprietary fund statements offer more details. Proprietary funds use the accrual basis of accounting.

Fiduciary Funds: funds are used to account for assets held by the municipality in a trustee capacity or as an agent for individuals, organizations, or other governmental units or funds. Included in fiduciary funds are trust and agency funds. Financial information for fiduciary funds is not reflected in the government-wide financial statements because the resources are not available to support the city's operations.

Notes to the Basic Financial Statements

The financial statement notes provide additional information that is imperative to a full understanding of the data provided in the government-wide and fund financial statements.

INDIANA
Management Discussion and Analysis
For the year ended December 31 2002
(unaudited)

Supplemental Information

In addition to the basic financial statements and additional notes, this report provides supplementary information that is required by the Government Accounting Standards Board Statement No. 34.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Since this is the first year of implementation for the Government Accounting Standards Board Statement No. 34, the City of Gary is not required to analyze prior periods for the purpose of providing comparative information for the current year. Therefore, the following tables only present year data and are condensed. Comparative analysis of prior year data will be presented in future years.

Statement of Net Assets

The city's net assets totaled \$73,073,903, while the component unit's net assets totaled \$166,183,339. The largest component of the city's net assets was investment in capital assets. The City's long-term liabilities used to finance the investments in capital assets also reflects a large portion of total liabilities of 73%. Since the capital assets themselves are used to provide services to citizens, they cannot be used to liquidate the associate debt. Therefore, resources needed to repay the debt must be provided from other sources.

Another component of the city's net assets is restricted. These resources are subject to external restrictions as to how they may be used. Grantors, contributors and other branches of the government may impose such restrictions as imposed by law through constitutional provisions or legislation. Unrestricted net assets is the final component represented. Unrestricted resources for the city may be used to meet its continued obligations to citizens and creditors. Federal mandates for homeland securities and rising health costs, in addition to the first time recording of accumulated depreciation for fixed assets contributed to the negative balances in unrestricted net assets.

Current and other assets consist of cash, investments, and receivables from property taxes, accounts, intergovernmental, employer contributions, loans, inventories, prepaid expenses, and restricted assets. Capital assets include land, infrastructure, construction in progress, buildings and improvements, and equipment, which are used to provide services to the citizens of the city.

Long-term liabilities consist mostly of payables for judgments, contracts, revenue bonds, notes and loans, and general obligation bonds. Other payables include payables from restricted assets as accounts payable, accrued bond interest, retainage payable, estimated medical claims payable, and loan and bond payables due within one year.

INDIANA
Management Discussion and Analysis
For the year ended December 31, 2002
(unaudited)

CITY OF GARY
STATEMENT OF NET ASSETS (condensed)
For the Year Ended December 31, 2002

Governmental Activities	Percent of Total	Component Unit	Percent of Total
----------------------------	---------------------	-------------------	---------------------

Assets:

Current and other assets	\$ 50,565,239	29%	\$ 60,053,062	30%
Capital assets	\$ 122,965,850	71%	140,524,086	70%
Total Assets	\$ 173,531,089	100%	\$200,577,148	100%

Liabilities:

Current liabilities	\$ 5,734,548	6%	2,552,322	7%
Other liabilities	\$ 19,208,058	19%	3,599,897	6%
Long-term liabilities	\$ 75,514,580	75%	28,241,590	82%
Total Liabilities	\$ 100,457,186	100%	34,393,809	100%

Net Assets:

Invested in capital assets				
net of related debt	\$ 81,275,430	1.11 %	156,272,954	94%
Restricted	\$ 22,359,527	0.31 %	28,561,907	17%
Unrestricted	\$ (30,561,054)	(42%)	\$ (18,651,522)	(11%)
Total net assets	\$ 73,073,903	100%	\$ 166,183,339	100%

INDIANA
Management Discussion and Analysis
For the year ended December 31 2002
(unaudited)

Statement of Activities

The statement below contains condensed financial data from the Statement of Activities. As this is the first year of implementation, comparative information is not available.

Program Revenues consist of Charges for Services, Operating Grants and Contributions, and Capital Grants and Contributions. Operating Grants and Contributions are monies received from parties outside the City and are generally restricted to one or more specific programs. Some of the city's grants are reimbursable, whereas revenues are not received until an expense has been incurred. Thus, revenues are not always received in the period for which the expense was incurred.

CITY OF GARY
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2002

				Net (Expense) Revenue and Changes in Net Assets
				Primary Government
Functions/Programs	Expenses	Program Revenues	Governmental Activities	Component Unit
Primary Government:				
Government Activities:				
General Government	\$ 38,820,882	\$ 5,951,326	\$ (32,869,556)	-
Public Safety	50,776,718	4,990,346	(45,786,372)	-
Highways and Streets	7,996,292	4,370,924	(3,625,368)	-
Sanitation	1,029,137	647,942	(381,195)	-
Economic Development	10,659,658	17,551,103	6,891,445	-
Culture and Recreation	13,138,345	2,288,005	(10,850,340)	-
Health and Welfare	5,740,689	4,041,105	(1,699,584)	-
Interest on Long Term Debt	2,117,060	-	(2,117,060)	-
Amortization of Bond Issue	369,779	-	(369,779)	-
Bad Debt Expense	806,718	-	(806,718)	-
Total Primary Government	131,455,278	39,840,751	(91,614,527)	-
Component Unit				
Gary Sanitary District	\$ 27,726,887	25,842,764	-	(1,884,123)
General Revenues:				7,394,307
Special Items:				
Loss on Sale of Capital Assets			-	(30,510)
Total General Revenues, Special Items and Transfers			85,105,897	7,363,797
Change in Net Assets			(6,508,630)	5,479,674
Net Assets-beginning			79,582,533	160,703,665
Net Assets-ending			\$ 73,073,903	\$ 166,183,339

INDIANA
Management Discussion and Analysis
For the year ended December 31 2002
(unaudited)

FINANCIAL ANALYSIS OF THE GOVERNMENT FUNDS

BALANCE SHEET

Authoritative accounting and financial reporting standards for state and local government require that government-wide financial statements be accompanied by fund-based presentations. To ensure adherence to these financial and legal requirements, the City of Gary uses the fund accounting system.

Governmental Funds: The City of Gary's governmental funds provides information on inflows and outflows, which is beneficial in determining the City's financial requirements. As an example, unreserved fund balances may serve as a useful measure of a municipality's net resources available for spending at the end of the fiscal year.

As of December 31, 2002, the City of Gary's governmental funds reported combined ending fund balances of \$39,357,415. The reserved portion of the fund balance is 68% of the total fund balance. It represents obligations at the end of the year to be carried forward. The reserved fund balance includes encumbrances, debt service, prepaid items, and loans receivable. The unreserved balance is 32% of the total fund balance. This portion represents the General fund, Special revenue funds, and Capital projects funds. The unreserved fund balance is uncommitted and is available for future spending.

CITY OF GARY
BALANCE SHEET (Condensed)

GOVERNMENTAL FUNDS
For the Year Ended December 31, 2002

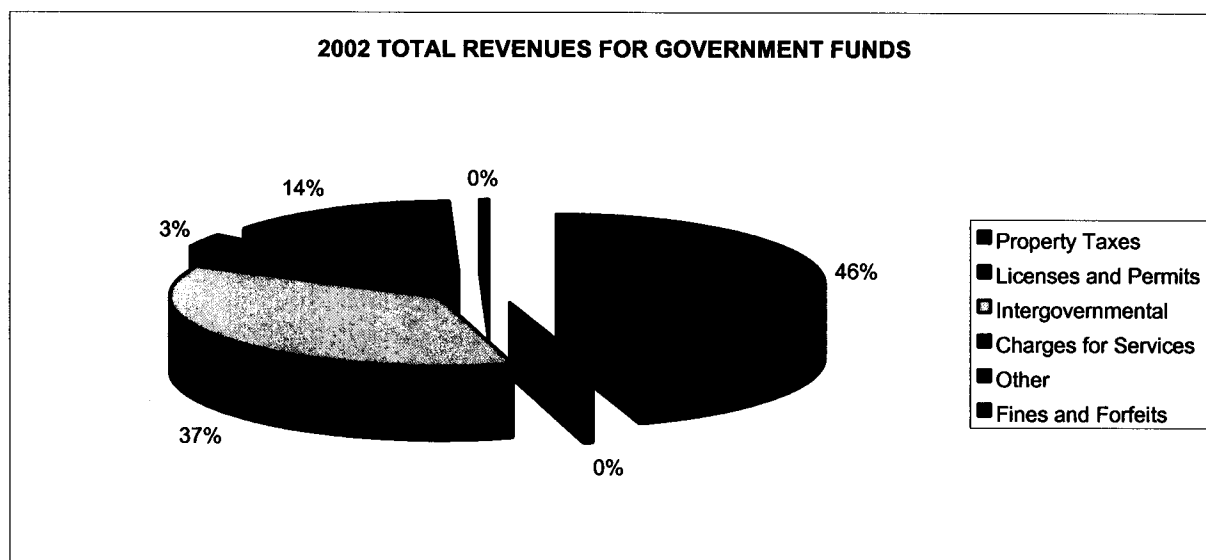
	General	Gaming Revenue	Casino Capital	2001 Series A Bond Project	Other Governmental Funds	Totals
Assets						
Current Assets	\$ 4,891,312	\$ 16,772,613			\$ 11,992,894	\$ 33,656,819
Restricted Assets			\$ 1,457,799	\$ 11,465,672	\$ 15,149,968	\$ 28,073,439
Interfund Receivables				\$ -	\$ 5,506	\$ 5,506
Total Assets	\$ 4,891,312	\$ 16,772,613	\$ 1,457,799	\$ 11,465,672	\$ 27,148,368	\$ 61,735,764
Liabilities						
Current Liabilities	\$ 16,278,835	\$ 2,203	\$ -	\$ -	\$ 1,967,582	\$ 18,248,620
Payables Restricted from Assets			\$ 1,071,214	\$ 1,696,443	\$ 1,362,072	\$ 4,129,729
Total Liabilities	\$ 16,278,835	\$ 2,203	\$ 1,071,214	\$ 1,696,443	\$ 3,329,654	\$ 22,378,349
Fund Balances						
Reserved	\$ 991,851	\$ 68,996	\$ 12,318,715	\$ -	\$ 13,315,811	\$ 26,695,373
Unreserved	\$ (12,379,374)	\$ 16,701,414	\$ (11,932,130)	\$ 9,769,229	\$ 10,502,903	\$ 12,662,042
Total Liabilities and Fund Balances	\$ 4,891,312	\$ 16,772,613	\$ 1,457,799	\$ 11,465,672	\$ 27,148,368	\$ 61,735,764

INDIANA
Management Discussion and Analysis
For the year ended December 31 2002
(unaudited)

The General Fund is the major operating fund for the City of Gary. The unreserved balance in the general fund at December 31, 2002, was (\$12,379,374). This deficit is mostly attributed to public safety overtime.

Property tax revenue is the largest (86.83%) of the total revenues received in 2002. It is also the largest percent (39.58%) of revenues received for all government funds. General Fund total revenue is 45.58% of the total revenue for all government funds. Inter-governmental funds are the second largest percentage of revenues for the General Fund and all government funds.

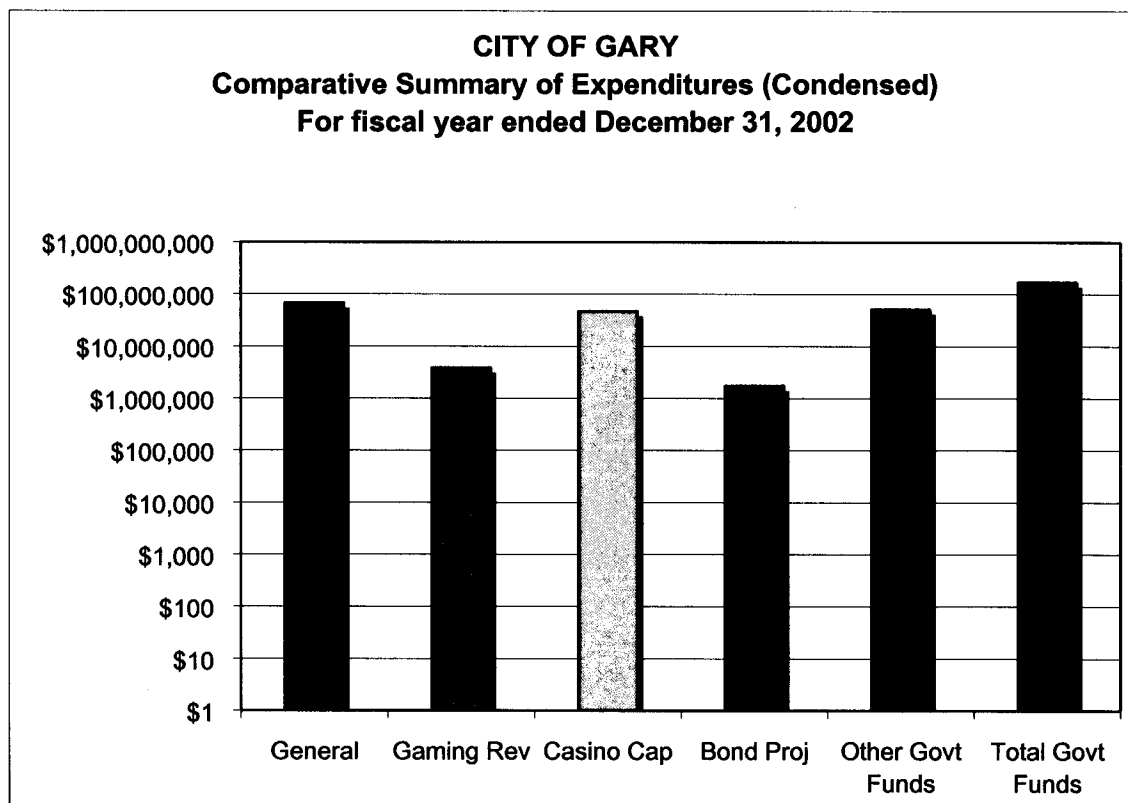
CITY OF GARY
Comparative Summary of Revenue
For fiscal year ended December 31, 2002



REVENUES	Percent of		Total	Gen. Fund	
	General Fund	General Fund Total	Government Funds	Percent of Total Government Fund Total	Percent of Government Total
Taxes:					
Property	\$48,811,462	86.83%	\$55,529,680	46%	39.58%
Licenses and Permits	\$615,470	1.09%	\$615,470	0%	0.50%
Intergovernmental	\$3,051,276	5.43%	\$45,169,827	37%	2.47%
Charges for Services	\$870,379	1.55%	\$3,732,007	3%	0.71%
Fines and Forfeits	\$535,553	0.95%	\$535,553	0%	0.43%
Other	\$2,327,668	4.14%	\$17,747,216	14%	1.89%
TOTAL					
REVENUES	\$56,211,808	100.00%	\$123,329,753	100.00%	45.58%

INDIANA
Management Discussion and Analysis
For the year ended December 31 2002
(unaudited)

The chart below illustrates a comparison of expenses for government funds from the Statement of Revenues, Expenditures, and Other Changes in Fund Balance fiscal year 2002. The current expenses consist of general government, public safety, highway and streets, sanitation, health and welfare, cultural and recreation, and urban redevelopment. Current Expenses are 64% of the total government expenses. Debt Service is 7% of total governmental expenses, and Capital Outlay is 29% of total governmental expenses.



CITY OF GARY
Comparative Summary of Expenditures (Condensed)
For fiscal year ended December 31, 2002

	General	Gaming Revenue	Casino Capital	2001 Series A Bond Project	Other Governmental Funds	Total Government Funds
Expenditures:						
Current	\$ 67,109,674	\$ 3,822,837	\$ -	\$ -	\$ 37,821,559	\$ 108,754,070
Debt Service	\$ -	\$ -	\$ -	\$ 30,676	\$ 11,685,193	\$ 11,715,869
Capital Outlay	\$ -	\$ -	\$ 46,595,901	\$ 1,696,443	\$ 1,482,692	\$ 49,775,036
Total Expenditures	\$ 67,109,674	\$ 3,822,837	\$ 46,595,901	\$ 1,727,119	\$ 50,989,444	\$ 170,244,975

INDIANA
Management Discussion and Analysis
For the year ended December 31 2002
(unaudited)

BUDGETARY HIGHLIGHTS

The following financial information is condensed from the required supplementary information, budget comparison schedules. The increase in Public Safety budget was attributed to overtime pay as a result of a four-man requirement on fire engines as safety precautions, and restructuring of command areas in the police department to better deter crime.

CITY OF GARY
Budgetary Highlights (Non GAAP Basis)
for the Fiscal Year Ended December 31, 2002

General Fund				
	Budgeted Amounts		Actual Budgetary Basis	Variance with Final Budget Over
	Original	Final	Amounts	(Under)
General Government	27,626,425	26,551,003	27,464,991	(913,988)
Public Safety	32,468,504	37,941,907	37,227,450	714,457
Highways and Streets	484,575	417,805	408,705	9,100
Health and Welfare	278,607	233,781	227,124	6,657
Urban Redevelopment and Housing	1,564,600	1,428,557	1,402,903	25,654
Total Budget	62,422,711	66,573,053	66,731,173	(158,120)

CAPITAL ASSETS AND LONG-TERM DEBT ACTIVITY

Capital assets: City of Gary investment in capital assets, net of accumulated depreciation, for its government activities at year-end totaled \$38,426,244. The investments in capital assets include the Public Safety Building, and Baseball Stadium. The following schedule summarizes the major capital assets during the year.

INDIANA
Management Discussion and Analysis
For the year ended December 31 2002
(unaudited)

CITY OF GARY
Capital Assets Additions
For the Year Ended December 31, 2002

Asset	Governmental Activity			Totals
	Cost	Transfer to CIP		
Land	\$ 68,200		\$	68,200
Building and Improvements	\$ 47,072,280	\$ (13,823,545)	\$	33,248,735
Machinery and Equipment	\$ 1,859,825		\$	1,859,825
Construction in Progress	\$ 7,992,470		\$	7,992,470
Less Depreciation Expense			\$	(4,742,986)
TOTAL	\$ 56,992,775	\$ (13,823,545)	\$	38,426,244

Long-term Debt: At the end of the current fiscal year, the City of Gary had total bond debt outstanding of \$42,745,000. The Redevelopment Bonds are secured by casino revenues that have been pledged by the Common Council to the Redevelopment Commission.

CITY OF GARY
Outstanding Debt at Year-End
For the Year Ended December 31, 2002

	2002	2001	Change
Revenue Bonds	\$ 5,015,000	\$ 5,385,000	\$ (370,000)
Redevelopment Bonds	\$ 37,730,000	\$ 25,180,000	\$ 12,550,000
Total Debt	\$ 42,745,000	\$ 30,565,000	\$ 12,180,000

INDIANA
Management Discussion and Analysis
For the year ended December 31 2002
(unaudited)

ECONOMIC FACTORS AND GENERAL OUTLOOK

Although Lake County has experienced a .5% increase in population since the 2000 census, the City of Gary, with a population of approximately 102,671 at the 2000 census, has experienced a slight decrease in population. The majority of growth for the county occurred in the suburban communities, while larger urban cities as Gary, Hammond, and East Chicago experienced declines in population.

The U.S. Department of Labor, Bureau of Labor Statistics recorded unemployment for the City of Gary at an averaged of 6.2% in 2002. This was an increase of 1.2% from 2001. As of September 2003, the unemployment rate has dropped to 5.1%.

As in the case of most of Lake County, the City of Gary economic condition is highly dependent on the steel industry. Other large industry includes Trump and Majestic casinos, educational institutions, and trucking transport companies.

The year of 2003 is projected to be challenging for the City of Gary, as with most of the State of Indiana, due to the general property reassessment. Assessed values must now be based on market value instead of the traditional replacement cost formulas, which were declared unconstitutional in 1998. Due to this change, many counties projected that assessed values would not be available in time to establish property tax rates and levies as required in February of each year.

REQUESTS FOR INFORMATION

The financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the City of Gary's financial position. Any questions regarding information provided in this report or requests for additional financial information should be addressed to the City Controller, Finance Department, 401 Broadway, Suite 100, Gary, IN 46402.

CITY OF GARY
STATEMENT OF NET ASSETS
December 31, 2002

<u>Assets</u>	Primary Governmental Activities	Component Unit
Cash and cash equivalents	\$ 8,212,309	\$ 16,440,395
Investments	753,893	-
Receivables (net of allowances for uncollectibles):		
Taxes	3,383,670	389,966
Accounts	2,306,691	10,570,734
Intergovernmental	2,636,231	391,526
Loans	3,966,954	-
Internal balances	-	150,000
Inventories	-	801,734
Prepaid items	175,741	35,364
Restricted assets:		
Cash and cash equivalents	25,595,062	30,403,047
Investments	1,584,310	-
Interest receivable	16,277	-
Taxes	31,071	-
Intergovernmental	846,719	-
Prepaid items	1,731	-
Deferred debits:		
Bond Issue Costs	1,054,580	255,296
Deposit for sewer line construction	-	615,000
Capital assets:		
Land, improvements and construction in progress	18,238,570	13,376,395
Other capital assets, net of depreciation	<u>104,727,280</u>	<u>127,147,691</u>
Total assets	<u>173,531,089</u>	<u>200,577,148</u>
 <u>Liabilities</u>		
Current liabilities:		
Accounts payable	1,254,077	1,081,785
Accrued payroll and withholdings payable	2,340,935	58,446
Compensated absences	-	105,212
Contracts payable	-	631,990
Claims payable	1,760,248	-
Internal balances	-	150,000
Taxes payable	1,964	-
Accrued interest payable	2,324	524,889
Loans payable	375,000	-

The notes to the financial statements are an integral part of this statement.

CITY OF GARY
STATEMENT OF NET ASSETS
December 31, 2002
(Continued)

	Primary Government Governmental Activities	Component Unit
<u>Liabilities (Continued)</u>		
Payable from restricted assets:		
Accounts payable	\$ 2,834,029	\$ -
Accrued payroll and withholdings payable	155,587	-
Contracts payable	-	520,229
Accrued bond interest	218,867	59,780
Retainage Payable	1,069,575	-
Estimated medical claims payable	-	60,888
General obligation bonds payable - due within one year	-	835,000
Loans payable - due within one year	-	2,124,000
Revenue bonds - due within one year	14,930,000	-
Long term liabilities:		
Accounts payable	-	234,460
General obligation bonds payable	-	11,430,000
Compensated absences	1,659,979	-
Revenue bonds payable	27,815,000	-
Loans payable	400,000	16,577,130
Estimated claims and judgements payable	450,000	-
Landfill postclosure costs	1,713,671	-
Net pension obligation	43,475,930	-
Total liabilities	<u>100,457,186</u>	<u>34,393,809</u>
<u>Net assets</u>		
Invested in capital assets, net of related debt	81,275,430	156,272,954
Restricted for:		
Highways and streets	1,263,228	-
Capital outlay	11,747,881	22,166,220
Debt service	7,245,623	5,973,544
Other purposes	2,102,795	422,143
Unrestricted	<u>(30,561,054)</u>	<u>(18,651,522)</u>
Total net assets	<u>\$ 73,073,903</u>	<u>\$ 166,183,339</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GARY
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2002

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit Gary Sanitary District
Primary government:						
Governmental activities:						
General government	\$ 39,627,600	\$ 5,156,776	\$ 319,695	\$ 474,855	\$ (33,676,274)	\$ -
Public safety	50,776,718	1,238,013	3,471,942	280,391	(45,786,372)	-
Highways and streets	7,996,292	-	3,108,505	1,262,419	(3,625,368)	-
Sanitation	1,029,137	-	647,942	-	(381,195)	-
Urban redevelopment and housing	10,659,658	105,836	12,458,940	4,986,327	6,891,445	-
Culture and recreation	13,138,345	2,024,408	262,901	696	(10,850,340)	-
Health and welfare	5,740,689	286,352	3,754,753	-	(1,699,584)	-
Interest on long-term debt	2,486,839	-	-	-	(2,486,839)	-
Total primary government	<u>\$ 131,455,278</u>	<u>\$ 8,811,385</u>	<u>\$ 24,024,678</u>	<u>\$ 7,004,688</u>	<u>\$ (91,614,527)</u>	<u>-</u>
Component unit:						
Gary Sanitary District	<u>\$ 27,726,887</u>	<u>\$ 20,168,111</u>	<u>\$ 231,970</u>	<u>\$ 5,442,683</u>	<u>-</u>	<u>(1,884,123)</u>
General revenues:						
Property taxes					55,529,680	6,631,102
Excise taxes					2,532,748	-
Financial Institution taxes					87,417	-
Gambling taxes					16,746,409	-
Cigarette taxes					129,506	-
In Lieu of taxes					254,313	-
Alcoholic beverage taxes					290,943	-
Grants and contributions not restricted to specific programs					8,453,854	281,700
Other					409,696	-
Unrestricted investment earnings					671,331	481,505
Special items:						
Loss on sale of Capital Assets					-	(30,510)
Total general revenues, special items, and transfers					<u>85,105,897</u>	<u>7,363,797</u>
Change in net assets					(6,508,630)	5,479,674
Net assets - beginning					<u>79,582,533</u>	<u>160,703,665</u>
Net assets - ending					<u>\$ 73,073,903</u>	<u>\$ 166,183,339</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GARY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2002

<u>Assets</u>	<u>General</u>	<u>Gaming Revenues</u>	<u>Casino Capital</u>	<u>2001 Series A Bond Project</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Cash and cash equivalents	\$ 556,367	\$ 2,252,820	\$ -	\$ -	\$ 5,403,122	\$ 8,212,309
Investments	-	-	-	-	753,893	753,893
Receivables (net of allowances for uncollectibles):						
Taxes	3,008,288	-	-	-	375,382	3,383,670
Accounts	882,077	632,630	-	-	783,678	2,298,385
Intergovernmental receivable	300,384	1,863,181	-	-	472,666	2,636,231
Loans	-	-	-	-	3,966,954	3,966,954
Interfund receivable:						
Interfund loans	57,804	12,023,982	-	-	147,850	12,229,636
Prepaid items	86,392	-	-	-	89,349	175,741
Restricted assets:						
Cash and cash equivalents	-	-	1,457,518	11,451,964	12,685,580	25,595,062
Investments	-	-	-	-	1,584,310	1,584,310
Interest receivable	-	-	281	13,708	2,288	16,277
Taxes receivable	-	-	-	-	31,071	31,071
Intergovernmental receivable	-	-	-	-	846,719	846,719
Interfund receivable:						
Interfund loans	-	-	-	-	3,775	3,775
Prepaid items	-	-	-	-	1,731	1,731
Total assets	\$ 4,891,312	\$ 16,772,613	\$ 1,457,799	\$ 11,465,672	\$ 27,148,368	\$ 61,735,764

Liabilities and fund balances

Liabilities:						
Accounts payable	\$ 873,052	\$ 2,203	\$ -	\$ -	\$ 378,822	\$ 1,254,077
Accrued payroll and withholdings payable	1,999,574	-	-	-	341,361	2,340,935
Interfund payable:						
Interfund loans payable	10,447,850	-	-	-	943,282	11,391,132
Taxes payable	-	-	-	-	1,964	1,964
Deferred revenue	2,440,755	-	-	-	302,153	2,742,908
Estimated claims payable	517,604	-	-	-	-	517,604
Payable from restricted assets:						
Accounts payable	-	-	1,639	1,696,443	1,135,947	2,834,029
Accrued payroll and withholdings payable	-	-	-	-	155,587	155,587
Retainage payable	-	-	1,069,575	-	-	1,069,575
Deferred revenue	-	-	-	-	70,538	70,538
Total liabilities	16,278,835	2,203	1,071,214	1,696,443	3,329,654	22,378,349

The notes to the financial statements are an integral part of this statement.

CITY OF GARY
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2002
(Continued)

<u>Liabilities and fund balances (Continued)</u>	<u>General</u>	<u>Gaming Revenues</u>	<u>Casino Capital</u>	<u>2001 Series A Bond Project</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Fund balances:						
Reserved for:						
Loans receivable	\$ -	\$ -	\$ -	\$ -	\$ 3,966,954	\$ 3,966,954
Encumbrances	905,459	68,996	12,318,715	-	1,790,963	15,084,133
Debt service funds	-	-	-	-	7,466,814	7,466,814
Prepaid items	86,392	-	-	-	91,080	177,472
Unreserved, reported in:						
General fund	(12,379,374)	-	-	-	-	(12,379,374)
Special revenue funds	-	16,701,414	-	-	9,044,255	25,745,669
Capital projects funds	-	-	(11,932,130)	9,769,229	1,458,648	(704,253)
Total fund balances	<u>(11,387,523)</u>	<u>16,770,410</u>	<u>386,585</u>	<u>9,769,229</u>	<u>23,818,714</u>	<u>39,357,415</u>
Total liabilities and fund balances	<u>\$ 4,891,312</u>	<u>\$ 16,772,613</u>	<u>\$ 1,457,799</u>	<u>\$ 11,465,672</u>	<u>\$ 27,148,368</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	122,965,850
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	2,813,446
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	(2,076,617)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(89,986,191)</u>

Net assets of governmental activities	<u>\$ 73,073,903</u>
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The notes to the financial statements are an integral part of this statement.

CITY OF GARY
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2002

	General	Gaming Revenues	Casino Capital	2001 Series A Bond Project	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes:						
Property	\$ 48,811,462	\$ -	\$ -	\$ -	\$ 6,718,218	\$ 55,529,680
Licenses and permits	615,470	-	-	-	-	615,470
Intergovernmental	3,051,276	16,746,410	-	-	25,372,141	45,169,827
Charges for services	870,379	41,033	-	-	2,820,595	3,732,007
Fines and forfeits	535,553	-	-	-	-	535,553
Other	<u>2,327,668</u>	<u>7,738,078</u>	<u>5,490,461</u>	<u>263,559</u>	<u>1,927,450</u>	<u>17,747,216</u>
Total revenues	<u>56,211,808</u>	<u>24,525,521</u>	<u>5,490,461</u>	<u>263,559</u>	<u>36,838,404</u>	<u>123,329,753</u>
Expenditures:						
Current:						
General government	27,603,900	2,156,063	-	-	2,615,920	32,375,883
Public safety	37,454,044	231,073	-	-	3,347,786	41,032,903
Highways and streets	228,766	39,270	-	-	6,899,620	7,167,656
Sanitation	-	26,971	-	-	920,944	947,915
Health and welfare	1,410,901	175,100	-	-	3,777,564	5,363,565
Culture and recreation	-	1,063,073	-	-	10,433,705	11,496,778
Urban redevelopment and housing	412,063	131,287	-	-	9,826,020	10,369,370
Debt service:						
Principal	-	-	-	-	9,820,000	9,820,000
Interest	-	-	-	30,676	1,865,193	1,895,869
Capital outlay	<u>-</u>	<u>-</u>	<u>46,595,901</u>	<u>1,696,443</u>	<u>1,482,692</u>	<u>49,775,036</u>
Total expenditures	<u>67,109,674</u>	<u>3,822,837</u>	<u>46,595,901</u>	<u>1,727,119</u>	<u>50,989,444</u>	<u>170,244,975</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(10,897,866)</u>	<u>20,702,684</u>	<u>(41,105,440)</u>	<u>(1,463,560)</u>	<u>(14,151,040)</u>	<u>(46,915,222)</u>
Other financing sources (uses):						
Transfers in	504,571	3,242,790	41,731,825	-	23,569,434	69,048,620
Transfers out	(991,875)	(26,444,560)	(785,703)	(7,817,158)	(33,121,324)	(69,160,620)
Revenue bonds issued	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,000,000</u>	<u>22,000,000</u>
Total other financing sources and uses	<u>(487,304)</u>	<u>(23,201,770)</u>	<u>40,946,122</u>	<u>(7,817,158)</u>	<u>12,448,110</u>	<u>21,888,000</u>
Net change in fund balances	<u>(11,385,170)</u>	<u>(2,499,086)</u>	<u>(159,318)</u>	<u>(9,280,718)</u>	<u>(1,702,930)</u>	<u>(25,027,222)</u>
Fund balances - beginning	<u>(2,353)</u>	<u>19,269,496</u>	<u>545,903</u>	<u>19,049,947</u>	<u>25,521,644</u>	<u>64,384,637</u>
Fund balances - ending	<u><u>\$ (11,387,523)</u></u>	<u><u>\$ 16,770,410</u></u>	<u><u>\$ 386,585</u></u>	<u><u>\$ 9,769,229</u></u>	<u><u>\$ 23,818,714</u></u>	<u><u>\$ 39,357,415</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF GARY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2002

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (Statement of Revenues, Expenditures and Changes in Fund Balances).	\$ (25,027,222)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	38,426,244
The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(11,973,943)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(6,895,709)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	<u>(1,038,000)</u>
Change in net assets of governmental activities (statement of activities)	<u><u>\$ (6,508,630)</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF GARY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2002

<u>Assets</u>	<u>Internal Service Fund</u>
Current assets:	
Accounts receivable	\$ 2,096
Employer contributions receivable	468,599
Employee contributions receivable	<u>6,210</u>
Total current assets	<u>476,905</u>
Total assets	<u>476,905</u>
 <u>Liabilities</u>	
Current liabilities:	
Estimated claims payable	1,242,644
Interfund payable	<u>842,279</u>
Total current liabilities	<u>2,084,923</u>
Total liabilities	<u>2,084,923</u>
 <u>Net assets</u>	
Unrestricted	<u>(1,608,018)</u>
Total net assets	<u>\$ (1,608,018)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GARY
STATEMENT OF REVENUES, EXPENDITURES AND OTHER CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For The Year Ended December 31, 2002

	Internal Service Fund
Operating Revenues:	
Employer contributions	\$ 6,752,997
Employee contributions	1,320,664
Other	<u>16,213</u>
Total operating revenues	<u>8,089,874</u>
Operating expenses:	
General government	<u>8,771,275</u>
Total operating expenses	<u>8,771,275</u>
Operating loss	(681,401)
Transfers In	<u>112,000</u>
Change in net assets	(569,401)
Total net assets - beginning	<u>(1,038,617)</u>
Total net assets - ending	<u>\$ (1,608,018)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GARY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended December 31, 2002

	<u>Internal Service Fund</u>
Cash flows from operating activities:	
Receipts from customers and users	\$ 860,004
Receipts from interfund services provided	6,775,082
Payments to providers and insurers	<u>(9,050,049)</u>
Net cash provided by operating activities	<u>(1,414,963)</u>
Cash flows from noncapital financing activities:	
Transfer from other funds	112,000
Loans from other funds	900,000
Loans repaid to other funds	<u>(600,000)</u>
Net cash provided by noncapital financing activities	<u>412,000</u>
Net increase in cash and cash equivalents	(1,002,963)
Cash and cash equivalents, January 1	<u>460,684</u>
Cash and cash equivalents, December 31	<u>\$ (542,279)</u>
Reconciliation of operating income to net cash used by operating activities:	
Operating income	<u>\$ (681,401)</u>
Adjustments to reconcile operating income to net cash used by operating activities:	
Increase (decrease) in assets:	
Accounts receivable	20,021
Employer contributions receivable	(6,210)
Employee contributions receivable	(468,599)
Decrease in liabilities:	
Claims payable	<u>(278,774)</u>
Total adjustments	<u>(733,562)</u>
Net cash provided by operating activities	<u>\$ (1,414,963)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF GARY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
December 31, 2002

	Pension Trust Funds	Agency Funds
<u>Assets</u>		
Cash and cash equivalents	\$ 7,070,258	\$ 3,413,737
Receivables:		
Employer contributions	226,362	-
Total receivables	226,362	-
Total assets	7,296,620	3,413,737
<u>Liabilities</u>		
Accounts payable	-	175
Payable to individuals, organizations and other governments	-	3,413,562
Total liabilities	-	\$ 3,413,737
<u>Net assets</u>		
Held in trust for:		
Employees' pension benefits	7,296,620	
Total net assets	\$ 7,296,620	

The notes to the financial statements are an integral part of this statement.

CITY OF GARY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For The Year Ended December 31, 2002

	Pension Trust Funds
<u>Additions</u>	
Contributions:	
Employer contributions	\$ 5,920,830
Plan members	<u>450,860</u>
Total contributions	<u>6,371,690</u>
Investment income:	
Interest	<u>79,321</u>
Total additions	<u>6,451,011</u>
<u>Deductions</u>	
Benefits	9,189,741
Administrative expense	<u>1,309</u>
Total deductions	<u>9,191,050</u>
Changes in net assets	(2,740,039)
Restated Net assets - beginning	<u>10,036,659</u>
Net assets - ending	<u><u>\$ 7,296,620</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Gary (primary government) was established under the laws of the State of Indiana. The primary government operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health, welfare and social services, culture and recreation, public improvements, planning and zoning, general administrative services, waste- water disposal, and urban redevelopment housing.

The accompanying financial statements present the activities of the primary government and its significant component units. The component units discussed below are included in the primary government's reporting entity because of the significance of their operational or financial relationships with the primary government. Blended component units, although legally separate entities, are in substance part of the government's operations and exist solely to provide services for the government; data from these units is combined with data of the primary government. Discretely presented component units are involved in activities of an operational nature independent from the government; their transactions are reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

Blended Component Units

The Gary Building Corporation is a significant blended component unit of the primary government. The primary government appoints a voting majority of the Gary Building Corporation's board and a financial benefit/burden relationship exists between the primary government and the Building Corporation. Although it is legally separate from the primary government, the Gary Building Corporation is reported as if it were a part of the primary government because it provides services entirely or almost entirely to the primary government.

Discretely Presented Component Units

The Gary Sanitary District (District) is a significant discretely presented component unit of the primary government. The District operates the wastewater disposal for the primary government. The primary government appoints a voting majority of the District's board and a financial benefit/burden relationship exists between the primary government and the District.

The financial statements of the individual component units may be obtained from their respective offices as follows:

Gary Sanitary District
3600 West 3rd Avenue
Gary, Indiana 46402

Related Organizations

The primary government's officials are also responsible for appointing the members of the boards of other organizations, but the primary government's accountability for these organizations does not extend beyond making the appointments. The primary government appoints the board members of the following organizations:

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Gary Housing Authority
Gary Public Transportation Corporation
Gary/Chicago Regional Airport Authority

B. Government-Wide and Fund Financial Statements

Government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which direct expenses of a given function or segments are offset by program revenues. Direct expenses are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the primary government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the primary government receives cash.

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

The primary government reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The gaming revenues fund is a special revenue fund. It accounts for the financial resources received from the State of Indiana as gambling admissions taxes.

The casino capital fund is a capital projects fund. It accounts for resources derived from State of Indiana gambling taxes to provide for the cost of major capital improvements.

The 2001 series A bond project is a capital projects fund. It accounts for revenue bonds issued to construct the public safety facility, and lakefront development.

Additionally, the primary government reports the following fund types:

The internal service fund accounts for group health insurance, unemployment and workmen's compensation programs provided to other departments on a cost-reimbursement basis.

The pension trust funds account for the activities of the 1925 police and 1937 fire pension funds which accumulate resources for pension benefit payments.

Agency funds account for assets held by the primary government as an agent for the federal government, state government, and other local governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The primary government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the component unit and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

When both restricted and unrestricted resources are available for use, it is the primary government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The primary government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the primary government to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Nonparticipating certificates of deposit, demand deposits and similar nonparticipating negotiable instruments that are not reported as cash and cash equivalents are reported as investments at cost.

Debt securities are reported at fair value. Debt securities are defined as securities backed by the full faith and credit of the United States Treasury or fully insured or guaranteed by the United States or any United States government agency.

Open-end mutual funds are reported at fair value.

Money market investments that mature within one year or less at the date of their acquisition are reported at amortized cost. Other money market investments are reported at fair value.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Interfund Transactions and Balances

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "interfund receivables/payables (i.e., the current and non-current portion of interfund loans). All other outstanding balances between funds are reported as "interfund services provided/used." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the primary government in June and in December. State statutes (IC 6-1.1-17-16) require the Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Department of Local Government Finance). Taxes may be paid in two equal installments that become delinquent if not paid by May 10 and

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the primary government prior to December 31 of the year collected. Delinquent property taxes outstanding at year end for governmental funds, net of allowances for uncollectible accounts, are recorded as a receivable with an offset to deferred revenue since the amounts are not considered available.

4. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain proceeds of the governmental fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because of constraints placed on their use by grantors, bond covenants, or state statute. The liabilities related to these assets have also been classified as restricted.

6. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life (in years)
Buildings	50,000	Straight-line	25 to 50
Improvements to Buildings	25,000	Straight-line	5
Equipment	5,000	Straight-line	3 to 10
Infrastructure	75,000	Straight-line	25 to 50

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

7. Compensated Absences

- a. Sick Leave – Primary government employees earn sick leave at the rate of one day per month. Unused sick leave may be accumulated to a maximum of ninety days. Accumulated sick leave is not paid to employees upon termination.
- b. Vacation Leave – Primary government employees earn vacation leave at rates from ten days to twenty-five days per year based upon the number of years of service. Employees may carry over a maximum of one year in vacation time. Accumulated vacation leave is paid to employees through cash payments upon termination.

Vacation leave is accrued when incurred.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Reclassified Prior Year Data

Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation. See Note IV I, Restatements and Reclassifications, for more on reclassified prior year data.

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

II. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

	<u>Amount</u>
Total fund balances on the governmental fund balance sheet	\$ 39,357,415
Capital assets used in governmental activities that are not financial resources and are not reported in the funds	122,965,850
Other long-term assets not available to pay for current period expenditures and are deferred in the funds	2,813,446
Internal service funds used by management to charge the costs of certain services to individual funds	(2,076,617)
Long-term liabilities, including bonds payable, not due and payable in the current period and not reported in the funds	
Compensated absences	(1,659,979)
Claims and judgments	(450,000)
Revenue bonds, net of deferred debits	(41,690,420)
Loans payable	(775,000)
Accrued interest payable	(221,191)
Landfill closure and postclosure costs	(1,713,671)
Net pension obligation	<u>(43,475,930)</u>
Government-wide statement of net assets	<u>\$ 73,073,903</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

	<u>Amount</u>
Net change in fund balances - total governmental funds in the statement of revenues, expenditures and changes in fund balances	\$ (25,027,222)
Governmental funds report capital outlays as expenditures while the statement of activities has these allocated over their estimated useful lives and reported as depreciation expense:	
Additions in capital assets	43,169,230
Depreciation expense	(4,742,986)
Governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, where these amounts are deferred and amortized in the statement of activities:	
Issuance of revenue bonds	(22,000,000)
Reclassification of issuance costs from expense to deferred debit	447,027
Eliminate debt principal payments from expenditures	10,170,000
Recognize expense related to accrued interest	(221,191)
Recognize amortization of deferred debits	(369,779)
Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds:	
Bad debt expense due to change in allowance	(806,718)
Change in net pension obligation	(5,292,254)
Change in estimated judgments payable	(237,058)
Change in compensated absences	(559,679)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities	<u>(1,038,000)</u>
Change in net assets of governmental activities in the government-wide statement of activities	<u>\$ (6,508,630)</u>

III. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis which is not consistent with accounting principles generally accepted in the United States. All annual appropriations lapse at fiscal year end.

On or before August 31, the City Controller submits to the Common Council a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the Common Council to obtain taxpayer comments. In September of each year, the Common Council through the passage of an ordinance approves the budget for the next year. Copies of the budget ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Department of Local Government Finance. The budget becomes legally enacted after the City Controller receives approval of the Department of Local Government Finance.

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

The primary government's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the Common Council. The Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

Funds which were required by State Statute to be budgeted, but for which no budgets were adopted are as follows:

Park Non-Reverting, Health and Human Services, HIV Substance Abuse Prevention Program, Protective Services, Supplemental Adult Probation Services, Park Pavilion, Landfill Closure

Expenditures exceeded appropriations for the following funds or the following departments within the General Fund, which required legally, approved budgets.

B. Expenditures in Excess of Appropriations

For the year ended December 31, 2002, expenditures exceeded budgeted appropriations in the following funds, by the amounts below:

Fund	Amount
General - mayor	\$ 27,608
General - public works	198,125
General - human relations	121
General - human resources	65,519
General - public affairs	107,278
General - controller	908,897
General - miscellaneous/insurance	1,023,300
General - police	2,108,701
General - fire	2,278,630
General - ambulance	2,507,155
General - communication	6,042
Special revenue funds:	
Marquette park	408,478
Gaming revenues	1,989,562
Pension trust funds:	
Police pension	443,465
Fire pension	997,851
Total	<u><u>\$ 13,070,732</u></u>

These expenditures were funded by available cash balances in the funds. The excess of expenditures over appropriations resulted from the failure to obtain additional appropriation authority from the Common Council and, for some funds, the Department of Local Government Finance.

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Deficit Fund Equity

At December 31, 2002, the following funds reported deficits in fund equity, which are violations of State statute.

	Deficit
Governmental funds:	
General fund	\$ 10,869,919
Welfare-to-work	13,613
Workforce development	36,750
Solid waste recycling project	64,367
Park department	653,389
Lakefront development	5,145
Mayor donations II	10,521
Metro center	11,056
Mainwater project	230,331

Fund equity deficits arose primarily from expenditures or expenses exceeding revenues due to the underestimate of current requirements; these deficits will be repaid from future revenues.

IV. Detailed Notes on All Funds

A. Deposits and Investments

Deposits, made in accordance with IC 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

The primary government's investments are categorized below to give an indication of the level of risk assumed by the primary government at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the primary government or its agent in the primary government's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the primary government's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the primary government's name.

	Category			Reported	Fair
	1	2	3	Amount	Value
U.S. Government securities	\$ 1,584,310	\$ -	\$ -	\$ 1,584,310	\$ 1,584,310
Municipal revenue bonds	753,893	-	-	753,893	753,893
Total Investments	<u>\$ 2,338,203</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,338,203</u>	<u>\$ 2,338,203</u>

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Receivables

The primary government has no receivable accounts that have timing and credit characteristics different from typical accounts receivable. See Note V.E for information regarding loans receivable.

C. Capital Assets

Capital asset activity for the year ended December 31, 2002, was as follows:

<u>Primary government</u>	<u>Beginning Balance</u>	<u>Change Applied to Beginning Balance Due to Appraisal of Capital Assets</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 6,070,438	\$ 2,997,322	\$ 68,200	\$ -	\$ 9,135,960
Construction in progress	<u>15,314,635</u>	<u>(380,950)</u>	<u>7,992,470</u>	<u>13,823,545</u>	<u>9,102,610</u>
Total capital assets, not being depreciated	<u>21,385,073</u>	<u>2,616,372</u>	<u>8,060,670</u>	<u>13,823,545</u>	<u>18,238,570</u>
Capital assets, being depreciated:					
Buildings and improvements	81,303,034	(4,470,178)	47,072,280	-	123,905,136
Machinery and equipment	<u>42,215,438</u>	<u>(11,435,790)</u>	<u>1,859,825</u>	<u>-</u>	<u>32,639,473</u>
Totals	<u>123,518,472</u>	<u>(15,905,968)</u>	<u>48,932,105</u>	<u>-</u>	<u>156,544,609</u>
Less accumulated depreciation for:					
Buildings and improvements	27,589,135	-	2,079,918	-	29,669,053
Machinery and equipment	<u>19,485,208</u>	<u>-</u>	<u>2,663,068</u>	<u>-</u>	<u>22,148,276</u>
Totals	<u>47,074,343</u>	<u>-</u>	<u>4,742,986</u>	<u>-</u>	<u>51,817,329</u>
Total capital assets, being depreciated, net	<u>76,444,129</u>	<u>(15,905,968)</u>	<u>44,189,119</u>	<u>-</u>	<u>104,727,280</u>
Total governmental activity capital assets, net	<u>\$ 97,829,202</u>	<u>\$ (13,289,596)</u>	<u>\$ 52,249,789</u>	<u>\$ 13,823,545</u>	<u>\$ 122,965,850</u>

See Note IV I, Restatements and Reclassifications, for more on how the new appraisal of capital assets affected beginning net assets.

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Discretely presented component unit	Beginning Balance	Change Applied to Beginning Balance Due to Appraisal of Capital Assets	Increases	Decreases	Ending Balance
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 284,603	\$ -	\$ 168,600	\$ -	\$ 453,203
Construction in progress	<u>3,442,925</u>	<u>-</u>	<u>9,480,267</u>	<u>-</u>	<u>12,923,192</u>
Total capital assets, not being depreciated	<u>3,727,528</u>	<u>-</u>	<u>9,648,867</u>	<u>-</u>	<u>13,376,395</u>
Capital assets, being depreciated:					
Buildings and improvements	85,982,071	(182,070)	-	33,908	85,766,093
Transmission lines	175,278,124	465,350	1,657,326	-	177,400,800
Machinery and equipment	<u>41,734,039</u>	<u>116,824</u>	<u>520,885</u>	<u>877,778</u>	<u>41,493,970</u>
Totals	<u>302,994,234</u>	<u>400,104</u>	<u>2,178,211</u>	<u>911,686</u>	<u>304,660,863</u>
Less accumulated depreciation for:					
Buildings and improvements	61,485,230	(378,958)	1,639,344	13,657	62,731,959
Transmission lines	81,214,101	514,090	2,804,420	-	84,532,611
Machinery and equipment	<u>29,392,593</u>	<u>361,414</u>	<u>1,362,114</u>	<u>867,519</u>	<u>30,248,602</u>
Totals	<u>172,091,924</u>	<u>496,546</u>	<u>5,805,878</u>	<u>881,176</u>	<u>177,513,172</u>
Total capital assets, being depreciated, net	<u>130,902,310</u>	<u>(96,442)</u>	<u>(3,627,667)</u>	<u>30,510</u>	<u>127,147,691</u>
Total discretely presented component unit capital assets, net	<u>\$ 134,629,838</u>	<u>\$ (96,442)</u>	<u>\$ 6,021,200</u>	<u>\$ 30,510</u>	<u>\$ 140,524,086</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 1,478,220
Public safety	1,706,572
Highway and streets	388,348
Sanitation	72,774
Urban redevelopment and housing	80,462
Culture and recreation	968,101
Health and welfare	<u>48,509</u>
Total depreciation expense - governmental activities	<u>\$ 4,742,986</u>

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Depreciation expense was charged to functions/programs of the component unit as follows:

Business-type activities:	
Wastewater	<u>\$ 5,805,878</u>

D. Construction Commitments

For the Primary Government, construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2002	Committed	Required Future Funding
Public safety facility	<u>\$ 15,300,000</u>	<u>\$ 9,102,610</u>	<u>\$ -</u>	<u>\$ 6,197,390</u>

For the Component Unit, construction work in progress is composed of the following:

Project	Total Project Authorized	Expended to December 31, 2002	Committed	Required Future Funding
Black Oak sanitary sewer extension, section 8	\$ 135,000	\$ 52,255	\$ 82,745	\$ -
Washington Manor project	110,224	110,224	-	-
Sludge thickening	303,735	6,815	296,920	-
Belt filter press	224,630	-	224,630	-
North blowers no. 4 and no. 5	681,340	378,445	302,895	-
Clarifier no. 9 purchase and installation	327,759	35,086	292,673	-
Forest Avenue force main	156,197	95,704	60,493	-
Interim headworks project	3,825,362	3,453,981	371,381	-
WWTP electrical power distribution upgrade	6,904,349	473,096	6,431,253	-
Aeration system improvements project	6,023,349	5,586,983	436,366	-
Upgrade and rehabilitation of 27th and Chase Street pump station	820,139	651,477	168,662	-
Black Oak sanitary sewer extension, Sections 2, 4, and 7	4,088,788	2,002,197	2,086,591	-
Other SRF projects	<u>76,406</u>	<u>76,929</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 23,677,278</u>	<u>\$ 12,923,192</u>	<u>\$ 10,754,609</u>	<u>\$ -</u>

E. Interfund Balances and Activity

1. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2002, is as follows:

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Due To	Due From			
	General Fund	Nonmajor Governmental	Internal Service	Total
General fund	\$ -	\$ 57,804	\$ -	\$ 57,804
Major governmental	10,300,000	881,703	300,000	11,481,703
Non-major governmental	147,850	3,775	-	151,625
Totals	<u>\$ 10,447,850</u>	<u>\$ 943,282</u>	<u>\$ 300,000</u>	<u>\$ 11,691,132</u>

Interfund balances resulted from the time lag between the dates that (1) Interfund loans are repaid, (2) Interfund goods and services are provided or reimbursable expenditures occur, (3) transactions are recorded in the accounting system and (4) payments between funds are made.

2. Interfund Receivables and Payables- Cash Overdrafts

The composition of interfund balances for cash overdrafts as of December 31, 2002, is as follows:

Due To	Due From
	Internal Service Fund
Major governmental	<u>\$ 542,279</u>

3. Interfund Transfers at December 31, 2002, were as follows:

The primary government typically uses transfers to fund ongoing operating subsidies and to transfer the portion of state-shared revenues from the general fund to the debt services fund for current-year debt service requirements.

Transfer From	Transfer To				
	Governmental			Proprietary	
	General Fund	Major Fund	Nonmajor Governmental	Internal Service	Total
General fund	\$ -	\$ -	\$ 879,875	\$ 112,000	\$ 991,875
Major governmental	-	16,398,400	18,649,021	-	35,047,421
Nonmajor governmental	504,571	28,576,215	4,040,538	-	33,121,324
Totals	\$ 504,571	\$ 44,974,615	\$ 23,569,434	\$ 112,000	\$ 69,160,620

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Leases

Operating Leases

The primary government has entered into an operating lease having initial or remaining noncancelable terms exceeding one year for office space. Rental expenditure for this lease was \$152,650. The following is a schedule by years of future minimum rental payments as of December 31, 2002:

2003	\$ 167,475
2004	<u>172,499</u>
Total	<u>\$ 339,974</u>

G. Long-Term Liabilities

1. Revenue Bonds

The primary government issues bonds to be paid by income derived from the acquired or constructed assets or gambling taxes. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
2001 A redevelopment bonds - public safety facility and lake front development	Variable*	\$ 12,920,000
2001 B redevelopment bonds - baseball stadium	Variable*	4,500,000
2002 redevelopment bonds - baseball stadium	Variable*	20,310,000
Gary building corporation - Sears building renovations	7.2% to 8.25%	<u>5,015,000</u>
Total		<u>\$ 42,745,000</u>

*The variable interest rate is computed weekly, as determined by the remarketing agent (taking into consideration prevailing financial market conditions). The interest rate can not exceed a maximum of 12% per annum.

Revenue bonds debt service requirements to maturity are as follows:

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Year Ended December 31	Governmental Activities	
	Principal	Interest*
2003	\$ 14,930,000	\$ 337,838
2004	14,960,000	307,763
2005	9,135,000	273,900
2006	500,000	234,918
2007	545,000	192,638
2008-2012	<u>2,675,000</u>	<u>287,306</u>
Totals	<u>\$ 42,745,000</u>	<u>\$ 1,634,363</u>

*The interest shown is only for the fixed rate bond issues as the variable rate amounts are not known until they are computed.

2. Loans Payable

The primary government has entered into a variable rate section 108 loan with the U.S. Department of Housing and Urban Development (HUD). The interest is computed quarterly using the three month LIBOR plus twenty basis points. Annual debt service requirements to maturity for the loan principal only as follows:

2003	\$ 375,000
2004	<u>400,000</u>
Total	<u>\$ 775,000</u>

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2002, was as follows:

Primary government	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Revenue bonds	\$ 30,565,000	\$ 22,000,000	\$ 9,820,000	\$ 42,745,000	\$ 14,930,000
Loans payable	1,125,000	-	350,000	775,000	375,000
Landfill closure and post- closure care costs	1,713,671	-	-	1,713,671	-
Compensated absences	1,100,300	559,679	-	1,659,979	-
Net pension obligation	38,183,676	5,292,254	-	43,475,930	-
Claims and judgments	<u>212,942</u>	<u>450,000</u>	<u>212,942</u>	<u>450,000</u>	-
Total governmental activities					
Long-term liabilities	<u>\$ 72,900,589</u>	<u>\$ 28,301,933</u>	<u>\$ 10,382,942</u>	<u>\$ 450,000</u>	<u>\$ 15,305,000</u>

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Claims and judgments typically have been liquidated from the general fund.

Discretely Presented Component unit	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Accounts payable	\$ -	\$ 234,460	\$ -	\$ 234,460	\$ 234,460
Bonds payable:					
General obligation	13,055,000	-	790,000	12,265,000	835,000
State revolving loan	<u>10,681,227</u>	<u>-</u>	<u>711,000</u>	<u>9,970,227</u>	<u>739,000</u>
Total governmental activities					
Long-term liabilities	<u>\$ 23,736,227</u>	<u>\$ 234,460</u>	<u>\$ 1,501,000</u>	<u>\$ 22,469,687</u>	<u>\$ 1,808,460</u>
Business-type activities:					
Loans payable:					
Wastewater utility	\$ 3,080,252	\$ 5,650,651	\$ -	\$ 8,730,903	\$ 1,385,000
Compensated absences	<u>63,801</u>	<u>41,411</u>	<u>-</u>	<u>105,212</u>	<u>-</u>
Total business-type activities					
Long-term liabilities	<u>\$ 3,144,053</u>	<u>\$ 5,692,062</u>	<u>\$ -</u>	<u>\$ 8,836,115</u>	<u>\$ 1,385,000</u>

Compensated absences for governmental activities typically have been liquidated from the business type fund.

H. Restricted Assets

The balances of restricted asset accounts of the primary government and component unit are as follows:

	Primary Government	Discretely Presented Component Unit
Debt service	\$ 7,466,814	\$ 6,886,972
Loan reserve account	-	784,212
Capital projects/improvements	14,760,211	1,970,595
Employee health claims	-	43,364
Highways and streets	2,128,156	-
Other purposes	3,719,989	-
Capital replacement	<u>-</u>	<u>20,717,904</u>
Total restricted assets	<u>\$ 28,075,170</u>	<u>\$ 30,403,047</u>

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

I. Restatements and Reclassifications

For the year ended December 31, 2002, certain changes have been made to the financial statements to more appropriately reflect financial activity of the primary government. The following schedule presents a summary of restated beginning balances by fund type.

Fund Type	Balance as Reported December 31, 2001	Fund Reclassification	Balance as Restated January 1, 2002
Governmental	<u>\$ 64,368,757</u>	<u>\$ 15,880</u>	<u>\$ 64,384,637</u>

The following schedule presents a summary of the restated beginning balance of net assets. Prior period adjustments represent a reduction of capital assets due to an appraisal of capital assets and an allowance for doubtful accounts for taxes receivable not previously recognized.

Balance as of December 31, 2001	Prior Period Adjustments	Balance as Restated January 1, 2002
<u>\$ 109,026,992</u>	<u>\$ (29,444,459)</u>	<u>\$ 79,582,533</u>

V. Other Information

A. Risk Management

The primary government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Group Health Insurance (Primary Government)

The primary government has chosen to establish a risk financing fund for risks associated with employee health claims. The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$125,000 and \$1,000,000 in the aggregate per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

three years. Amounts are paid into the fund by all insured funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based primarily upon the percentage of each fund's current year payroll as it relates to total payroll, and are reported as quasi-external interfund transactions. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay outs and other economic and social factors.

Changes in the balance of claim liabilities during the past two years are as follows:

	<u>2001</u>	<u>2002</u>
Unpaid claims, beginning of fiscal year	\$ 781,344	\$ 1,423,269
Incurred claims and changes in estimates	6,327,243	4,641,090
Claim payments	<u>5,685,318</u>	<u>4,890,311</u>
Unpaid claims, end of fiscal year	<u>\$ 1,423,269</u>	<u>\$ 1,174,048</u>

Worker's Compensation and Unemployment Insurance (Primary Government)

The primary government has chosen to establish a risk financing fund for risks associated with employee workmen's compensation. The risk financing fund is accounted for in the Unemployment/Workmen's Compensation Fund, an internal service fund, where assets are set aside for claim settlements. Amounts are paid into the fund by all insured funds and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based primarily upon the percentage of each fund's current year payroll as it relates to total payroll, and are reported as quasi-external interfund transactions. Provisions are also made for unexpected and unusual claims.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amounts of pay outs and other economic and social factors.

Changes in the balance of claim liabilities during the past two years are as follows:

	<u>2001</u>	<u>2002</u>
Unpaid claims, beginning of fiscal year	\$ 53,188	\$ 98,149
Incurred claims and changes in estimates	1,099,101	842,084
Claim payments	<u>1,054,140</u>	<u>871,637</u>
Unpaid claims, end of fiscal year	<u>\$ 98,149</u>	<u>\$ 68,596</u>

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Vehicle and Liability Insurance (Primary Government)

The primary government pays for all vehicle and liability claims from the General Fund and the Gaming Revenues Fund. Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

B. Subsequent Events

The primary government of Gary issued Tax Anticipation Warrants in January 2003 in the amount of \$27,129,053 for the General Fund and \$1,266,797 for the Parks and Recreation Fund, at an interest rate of 1.42%. On September 10, 2003, the General Fund repaid \$7,148,903. The remaining warrants are due to be repaid on December 31, 2003.

The primary government of Gary issued Tax Anticipation Warrants in June 2003 in the amount of \$22,271,803 for the General Fund, \$1,993,466 for Parks and Recreation Fund, and \$1,027,646 for the Genesis Convention Center Fund, at an interest rate of 1.64%. On September 10, 2003, the General Fund repaid \$10,850,000. These warrants are due to be repaid on December 31, 2003.

Property tax rates and levies were not established by February 15, 2003, as required by law, due to the delay of the completion of the reassessment of Lake County. Based on state legislation passed in May 2003, the County will send the estimated bills for 2003. These will be at seventy percent of their prior year's tax bill. After completion of the reassessment, a final tax bill will be sent to taxpayers. It is estimated that the final bills may not be mailed until January 2004. This will result in reduced tax revenues for the City of Gary in 2003.

The Component Unit refinanced the 1993 general obligation bonds in May 2003. The amount outstanding as of the date of the refinancing was \$11,430,000. The amount borrowed under the refinancing is \$11,910,000 with an interest rate ranging from two to five percent (2% to 5%).

C. Contingent Liabilities

The primary government has been named in several lawsuits. The corporation counsel estimates that the City's potential loss on all cases which can be estimated, should not exceed \$450,000. These are recorded as estimated claims and judgments payable.

D. Conduit Debt Obligation

From time to time, the primary government has issued Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the primary government, the State, nor any political subdivision thereof is obligated in any manner for the repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2002, there were five series of Special Facility Revenue Bonds outstanding with an aggregate principal amount payable of \$36,685,000.

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

E. Loans Receivable – U.S. Department of Housing and Urban Development

The City of Gary Redevelopment Department loans money to local businesses and individuals. The funding for these loans comes from grants from the U.S. Department of Housing and Urban Development. The loans are accounted for in the Community Development Block Grant Fund, the Empowerment Zone Revolving Loan Fund, Empowerment Zone Micro Loan Fund, and the Economic Development Trust Fund. At December 31, 2002 outstanding loans were as follows:

	<u>Amount</u>
Community development block grant fund	\$ 13,750
Empowerment zone revolving loan fund	3,714,403
Empowerment zone micro loan fund	70,948
Economic development trust fund	<u>167,853</u>
Total loans receivable	<u>\$ 3,966,954</u>

F. Environmental Protection Agency Consent Decree – Component Unit

The Environmental Protection Agency issued a Consent Decree in 1998, whereby the Component Unit was required to accumulate funds in the Grand Calumet Sedimentation Fund, a nonmajor governmental fund. The funds were to be accumulated over a period of five years for a total of \$1,700,000. As of December 31, 2002, the balance in the fund is \$2,992,675.

The Component Unit and the Environmental Protection Agency have reached a tentative modified Consent Decree in 2002, but final adoption is pending with the Court. Under the modified agreement, a limit will be placed on the costs the Component Unit will have to incur for the study and remediation of river sediments. This limit is set at \$2,500,000. In addition, a special administrator will be required to certify on January 31 of each year, whether or not the Component Unit is complying with the terms of the Decree.

G. Privatized Operations – Component Unit

On April 10, 1998, the Component Unit entered into an agreement with White River Environmental Partnership (WREP) for the operation, maintenance and management of the Component Unit's wastewater treatment and collection system, with an effective date of July 1, 1998. As part of the agreement, WREP agreed to pay \$10,000,000 as an up front payment of savings to the Component Unit resulting from this ten year contract. In accordance with the agreement, the Component Unit pays WREP a base amount per year of \$9,500,000, which is adjusted annually for changes in the Consumer Price Index. Contractual services for 2002 were \$9,234,143. If the Component Unit cancels the contract prior to its expiration, the Component Unit would be liable for an early termination fee in an amount ranging from a high of \$9,000,000 to a low of \$1,000,000 if cancelled in the final year of the contract. The district does not anticipate terminating the contract prior to its expiration in 2007.

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

H. Pension Plan

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The primary government contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the primary government authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at three percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the primary government and the Component Unit is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the primary government and is presented in the governmental activities of the financial statements and is not presented as an asset/liability of the proprietary funds.

b. 1925 Police Officers' Pension Plan

Plan Description

The primary government contributes to the 1925 Police Officers' Pension Plan which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The primary government's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the primary government results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

c. 1937 Firefighters' Pension Plan

Plan Description

The primary government contributes to the 1937 Firefighters' Pension Plan which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The primary government's annual pension cost and related information, as provided by the actuary, is presented in this note.

Actuarial Information for the Above Plans

	<u>PERF</u>	<u>1925 Police Officers' Pension</u>	<u>1937 Firefighters' Pension</u>
Annual required contribution	\$ 370,576	\$ 8,659,400	\$ 8,198,100
Interest on net pension obligation	23,954	1,338,000	1,217,100
Adjustment to annual required contribution	<u>(26,051)</u>	<u>(2,062,700)</u>	<u>(1,876,200)</u>
Annual pension cost	368,479	7,934,700	7,539,000
Contributions made	<u>369,468</u>	<u>5,090,356</u>	<u>5,090,101</u>
Increase (decrease) in net pension obligation	(989)	2,844,344	2,448,899
Net pension obligation, beginning of year	<u>330,402</u>	<u>19,822,624</u>	<u>18,030,650</u>
Net pension obligation, end of year	<u>\$ 329,413</u>	<u>\$ 22,666,968</u>	<u>\$ 20,479,549</u>

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
Government	2%	521%	516%
Plan members	3%	6%	6%
Actuarial valuation date	07-01-02	01-01-02	01-01-02
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed 40 years	Level percentage of projected payroll, closed 40 years	Level percentage of projected payroll, closed 40 years
Amortization period			
Amortization period (from date)	07-01-97	12-31-77	12-31-77
Asset valuation method	4 year smoothed market	4 year smoothed market	4 year smoothed market

Actuarial Assumptions	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Investment rate of return	7.25%	7%	7%
Projected future salary increases:			
Total	5%	5%	5%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	1%	1%
Cost-of-living adjustments	2%	0%	0%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-00	\$ 252,629	118%	\$ 233,518
	06-30-01	467,706	71%	330,402
	06-30-02	368,479	100%	329,413
1925 police officers pension plan	12-31-99	7,521,200	56%	15,309,211
	12-31-00	7,768,600	42%	19,822,624
	12-31-01	7,934,700	64%	22,666,968
1937 firefighters' pension plan	12-31-99	7,331,700	59%	13,948,514
	12-31-00	7,398,600	45%	18,030,650
	12-31-01	7,539,000	68%	20,479,549

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2002, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retires and beneficiaries currently receiving benefits	249	261
Current active employees	44	40

2. Cost-Sharing, Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The primary government contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing, multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age fifty-five with twenty years of service. An employee with twenty years of service may leave service, but will not receive benefits until reaching age fifty-five. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the primary government is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the primary government are established by the Board of Trustees of PERF. The primary government's contributions to the plan for the years ending December 31, 2002, 2001, and 2000, were \$4,390,851, \$3,121,313, and \$2,868,267, respectively, equal to the required contributions for each year.

CITY OF GARY
NOTES TO FINANCIAL STATEMENTS
(Continued)

I. Municipal Solid Waste Landfill Closure and Post-Closure Costs

State and federal laws and regulations require the City to place a final cover on its municipal landfill when it stops accepting solid waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and post-closure care costs as an operating expenditure in each period based on landfill capacity used as of each balance sheet date. The \$1,713,671 reported as landfill closure and post-closure care liability at December 31, 2002, represents the cumulative amount reported to date based on the use of all of the estimated capacity of the landfill. The City has recognized all the estimated costs of closure and post-closure care since the landfill capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2002. The City closed the landfill on May 1, 1997. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make contributions to a trust to finance closure and post-closure care, to obtain a line of credit, obtain a bond in an amount sufficient to finance the estimated closure and post-closure care costs, obtain insurance, or fulfill the financial requirements set forth in 329 IAC 2-12. The City has chosen to make contributions to a trust. At December 31, 2002, investments of \$1,747,946 (\$1,747,946 market value) are held for these purposes. These are reported as restricted assets on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these contributions. However, if interest earnings are inadequate or additional post-closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by future tax revenue.

CITY OF GARY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-00	\$ 24,110,257	\$ 17,875,376	\$ 6,234,881	135%	\$ 17,794,279	35%
07-01-01	24,934,188	19,970,638	4,963,550	125%	18,367,249	27%
07-01-02	23,263,355	23,166,739	96,616	100%	20,901,510	0%

1925 Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-97	\$ 3,507,364	\$ 85,675,898	\$ (82,168,534)	4%	\$ 1,867,304	(4,400%)
01-01-98	3,854,322	91,180,579	(87,326,257)	4%	1,922,368	(4,543%)
01-01-99	2,637,842	78,840,700	(76,202,858)	3%	1,887,200	(4,038%)
01-01-00	4,376,372	80,789,800	(76,413,428)	5%	1,828,200	(4,180%)
01-01-01	3,680,204	82,245,900	(78,565,696)	4%	1,706,000	(4,605%)
01-01-02	5,614,371	79,847,000	(74,232,629)	7%	1,662,500	(4,465%)

1937 Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-97	\$ 3,161,225	\$ 81,675,870	\$ (78,514,645)	4%	\$ 1,922,224	(4,085%)
01-01-98	3,515,930	87,018,813	(83,502,883)	4%	1,892,331	(4,413%)
01-01-99	2,112,993	76,777,000	(74,664,007)	3%	1,824,400	(4,093%)
01-01-00	3,796,243	76,898,800	(73,102,557)	5%	1,695,200	(4,312%)
01-01-01	2,994,863	77,733,900	(74,739,037)	4%	1,740,800	(4,293%)
01-01-02	5,614,371	75,448,900	(69,834,529)	7%	1,590,200	(4,392%)

CITY OF GARY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CONTRIBUTIONS FROM THE
EMPLOYER AND OTHER CONTRIBUTING ENTITIES

1925 Police Officers' Pension Plan

Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
		City	State
12-31-96	\$ 6,514,300	35%	39%
12-31-97	8,119,800	19%	29%
12-31-98	8,826,000	0%	29%
12-31-99	7,883,700	24%	29%
12-31-00	8,276,900	12%	27%
12-31-01	8,659,400	0%	29%

1937 Firefighters' Pension Plan

Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
		City	State
12-31-96	\$ 6,266,900	37%	40%
12-31-97	7,760,400	21%	30%
12-31-98	8,416,400	0%	30%
12-31-99	7,662,700	26%	31%
12-31-00	7,861,800	13%	29%
12-31-01	8,198,100	0%	62%

CITY OF GARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
For The Year Ended December 31, 2002

	General Fund				Gaming Revenue Fund			
	Budgeted Amounts		Actual Budgetary Basis Amounts	Variance With Final Budget Over (Under)	Budgeted Amounts		Actual Budgetary Basis Amounts	Variance With Final Budget Over (Under)
	Original	Final			Original	Final		
Revenues:								
Taxes:								
Property	\$ 49,950,375	\$ 49,950,375	\$ 48,623,246	\$ (1,327,129)	\$ -	\$ -	\$ -	\$ -
Licenses and permits	548,210	548,210	615,470	67,260	-	-	-	-
Intergovernmental	3,207,154	3,207,154	3,131,262	(75,892)	-	-	17,250,121	17,250,121
Charges for services	493,503	493,503	713,242	219,739	-	-	-	-
Fines and forfeits	670,491	670,491	535,553	(134,938)	-	-	-	-
Other	2,326,776	2,326,776	2,373,514	46,738	-	-	7,982,756	7,982,756
Total revenues	<u>57,196,509</u>	<u>57,196,509</u>	<u>55,992,287</u>	<u>(1,204,222)</u>	<u>-</u>	<u>-</u>	<u>25,232,877</u>	<u>25,232,877</u>
Expenditures:								
Current:								
General government:								
Personal services	15,052,832	14,548,445	15,181,662	(633,217)	-	-	-	-
Supplies	1,701,253	1,327,492	1,220,840	106,652	-	-	-	-
Other services and changes	10,599,569	10,491,228	10,972,010	(480,782)	1,831,491	1,818,589	2,218,571	(399,982)
Capital outlay	<u>272,771</u>	<u>183,838</u>	<u>90,479</u>	<u>93,359</u>	<u>28,350</u>	<u>(6,453)</u>	<u>12,936</u>	<u>(19,389)</u>
Total general government	<u>27,626,425</u>	<u>26,551,003</u>	<u>27,464,991</u>	<u>(913,988)</u>	<u>1,859,841</u>	<u>1,812,136</u>	<u>2,231,507</u>	<u>(419,371)</u>
Public safety:								
Personal services	31,816,567	37,128,870	36,707,291	421,579	-	-	-	-
Supplies	88,383	89,942	80,234	9,708	-	-	-	-
Other services and changes	563,554	723,095	439,925	283,170	-	-	229,229	(229,229)
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,853</u>	<u>1,853</u>	<u>1,844</u>	<u>9</u>
Total public safety	<u>32,468,504</u>	<u>37,941,907</u>	<u>37,227,450</u>	<u>714,457</u>	<u>1,853</u>	<u>1,853</u>	<u>231,073</u>	<u>(229,220)</u>
Highways and streets:								
Personal services	203,235	203,235	203,075	160	-	-	-	-
Supplies	10,000	4,974	1,112	3,862	-	-	-	-
Other services and changes	65,372	25,572	22,937	2,635	-	-	-	-
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,250</u>	<u>(61,250)</u>
Total highways and streets	<u>278,607</u>	<u>233,781</u>	<u>227,124</u>	<u>6,657</u>	<u>-</u>	<u>-</u>	<u>61,250</u>	<u>(61,250)</u>
Sanitation:								
Other services and changes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,536</u>	<u>30,563</u>	<u>41,036</u>	<u>(10,473)</u>
Total sanitation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,536</u>	<u>30,563</u>	<u>41,036</u>	<u>(10,473)</u>

CITY OF GARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULES
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
For The Year Ended December 31, 2002
(Continued)

	General Fund				Gaming Revenue Fund			
	Budgeted Amounts		Actual Budgetary Basis Amounts	Variance With Final Budget Over (Under)	Budgeted Amounts		Actual Budgetary Basis Amounts	Variance With Final Budget Over (Under)
	Original	Final			Original	Final		
Expenditures (Continued):								
Current (Continued):								
Health and welfare:								
Personal services	\$ 1,171,772	\$ 1,094,632	\$ 1,091,697	\$ 2,935	\$ -	\$ -	\$ -	\$ -
Supplies	92,500	70,800	63,119	7,681	100,100	100,100	175,100	(75,000)
Other services and changes	300,328	263,125	248,087	15,038	-	-	-	-
Total health and welfare	1,564,600	1,428,557	1,402,903	25,654	100,100	100,100	175,100	(75,000)
Culture and recreation:								
Other services and changes	-	-	-	-	100,350	100,350	972,046	(871,696)
Capital Outlay	-	-	-	-	-	(16,398)	154,713	(171,111)
Total culture and recreation	-	-	-	-	100,350	83,952	1,126,759	(1,042,807)
Urban redevelopment and housing								
Personal services	337,101	297,805	289,405	8,400	-	-	-	-
Other services and changes	147,474	120,000	119,300	700	-	(920)	150,521	(151,441)
Total debt service	484,575	417,805	408,705	9,100	-	(920)	150,521	(151,441)
Total expenditures	62,422,711	66,573,053	66,731,173	(158,120)	2,096,680	2,027,684	4,017,246	(1,989,562)
Other financing sources (uses):								
Operating transfers in	-	504,571	504,571	-	-	3,242,790	3,242,790	-
Operating transfers out	-	(991,875)	(991,875)	-	-	(26,444,560)	(26,444,560)	-
Temporary loans not repaid	-	10,242,199	10,242,199	-	-	(11,481,703)	(11,481,703)	-
Total other financing sources (uses)	-	9,754,895	9,754,895	-	-	(34,683,473)	(34,683,473)	-
Net change in fund balances	(5,226,202)	378,351	(983,991)	(1,362,342)	(2,096,680)	(36,711,157)	(13,467,842)	23,243,315
Fund balances - beginning	1,540,358	1,540,358	1,540,358	-	16,262,941	16,262,941	16,262,941	-
Fund balances - December 31	<u>\$ (3,685,844)</u>	<u>\$ 1,918,709</u>	<u>\$ 556,367</u>	<u>\$ (1,362,342)</u>	<u>\$ 14,166,261</u>	<u>\$ (20,448,216)</u>	<u>\$ 2,795,099</u>	<u>\$ 23,243,315</u>

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CITY OF GARY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGET/GAAP RECONCILIATION
GENERAL FUND AND MAJOR SPECIAL REVENUE FUNDS
For The Year Ended December 31, 2002

The major differences between Budgetary (Non-GAAP) basis and GAAP basis are:

- a. Revenues are recorded when received in cash (budgetary) as opposed to susceptible to accrual (GAAP).
- b. Expenditures are recorded when paid in cash (budgetary) as opposed to when the liability is incurred (GAAP).

Adjustments necessary to convert the results of operations at the end of the year on a budgetary basis to a GAAP basis are as follows:

	<u>General</u>	<u>Major Special Revenue</u>
Net change in fund balances (budgetary basis)	\$ (983,991)	\$ (13,467,842)
Adjustments:		
To adjust revenues for accruals	219,524	10,774,347
To adjust expenditures for accruals	<u>(10,620,703)</u>	<u>194,409</u>
Net change in fund balances (GAAP Basis)	<u><u>\$ (11,385,170)</u></u>	<u><u>\$ (2,499,086)</u></u>

CITY OF GARY
OTHER REPORTS

The report presented herein was prepared in addition to other official reports prepared for the individual city offices listed below:

Police Pension
Park and Recreations Department
Metro Center
Police Department
City Clerk, Criminal and Civil Division
Department of Redevelopment
Emergency Medical Services
Health Department
Genesis Convention Center
Empowerment Zone
Probation and Drug Courts
Economic Development Corporation
City Controller

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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INDIANAPOLIS, INDIANA 46204-2765

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CITY OF GARY, LAKE COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Gary (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2002. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in items 2002-2 and 2002-3 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Reporting that are applicable to its Empowerment Zones Program and Welfare-to-Work Grants to States and Localities. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended December 31, 2002.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

December 11, 2003

CITY OF GARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2002

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-Through Indiana Department of Education Child Nutrition Cluster Summer Food Service Program for Children	10.559	45-05	\$ 132,490
Total for Federal Grantor Agency			132,490
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Direct Grant CDBG - Entitlement and (HUD-Administered) Small Cities Cluster Community Development Block Grants/Entitlement Grants	14.218		
		B-96-MC-18-0005	43,647
		B-97-MC-18-0005	16,694
		B-98-MC-18-0005	69,634
		B-99-MC-18-0005	334,440
		B-00-MC-18-0005	512,681
		B-01-MC-18-0005	2,832,844
		B-02-MC-18-0005	1,709,805
Economic Development Initiative Grants			775,000
Total for Cluster			6,294,745
Direct Grant Emergency Shelter Grants Program	14.231		
		S-00-MC-18-0005	1,352
		S-01-MC-18-0005	71,186
		S-02-MC-18-0005	148,749
Total for Program			221,287
Direct Grant Supportive Housing Program	14.235		
		IN36B005001	66,486
Direct Grant HOME Investment Partnerships Program	14.239		
		M-96-MC-18-0203	2,235
		M-97-MC-18-0203	122,735
		M-98-MC-18-0203	239,516
		M-99-MC-18-0203	263,648
		M-00-MC-18-0203	411,887
		M-01-MC-18-0203	185,735
		M-02-MC-18-0203	755,675
Total for Program			1,981,431
Direct Grant Empowerment Zones Program	14.244		
		EZ-99-IN-0004	4,668,129
Direct Grant Fair Housing Assistance Program - State and Local	14.401		
		FF205K025012	71,430

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF GARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2002
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (Continued)</u>			
Pass-Through Indiana Family and Social Services Administration Emergency Shelter Grants Program	14.231	45-03-09-0732	\$ 9,750
Total for Federal Grantor Agency			13,313,258
<u>U.S. DEPARTMENT OF INTERIOR</u>			
Direct Grant Urban Park and Recreation Recovery Program	15.919	18-CTY-1730-01-01	195,020
Total for Federal Grantor Agency			195,020
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grant Drug Court Discretionary Grant Program	16.585	97-DC-VX-0175	473
Direct Grant Public Safety Partnership and Community Policing Grants	16.710	95-CC-WX-0508 94-MU-CX-0012	856,954 480,713
Total for Program			1,337,667
Pass-Through Indiana Criminal Justice Institute Juvenile Accountability Incentive Block Grants	16.523	00-JB-009	197,921
Crime Victim Assistance	16.575	02-VA-079 02-VA-080 02-VA-081	45,001 136,952 49,045
Total for Program			230,998
Byrne Formula Grant Program	16.579	01-DB-039 Federal Forfeitures	56,250 38,777
Total for Program			95,027
Total for Federal Grantor Agency			1,862,086
<u>U.S. DEPARTMENT OF LABOR</u>			
Direct Grant Welfare-to-Work Grants to States and Localities	17.253	Y-7204-9-00-81-60	1,470,299
Total for Federal Grantor Agency			1,470,299

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF GARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2002
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation Highway Planning and Construction Cluster Highway Planning and Construction	20.205	STP-N-576(01) STP-N-746(011)	\$ 52,920 <u>25,775</u>
Total for Cluster			<u>78,695</u>
Pass-Through Indiana Criminal Justice Institute Highway Safety Cluster State and Community Highway Safety	20.600	OP-02-02-03-117	<u>46,236</u>
Safety Incentive Grants for Use of Seatbelts	20.604	BC-02-02-03-10	<u>3,029</u>
Total for Cluster			<u>49,265</u>
Total for Federal Grantor Agency			<u>127,960</u>
<u>U.S. EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</u>			
Direct Grant Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	9-5010-0054	<u>54,825</u>
Total for Federal Grantor Agency			<u>54,825</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Direct Grant Surveys, Studies, Investigations and Special Purpose Grants	66.606	X975-449-01-0	<u>1,541,107</u>
Direct Grant Solid Waste Management Assistance	66.808	X1-97579001-1	<u>20,036</u>
Direct Grant Brownfield Pilots Cooperative Agreements	66.811	BP975393-01	<u>53,515</u>
Pass-Through Indiana Department of Environmental Management Capitalization Grants for State Revolving Funds	66.458	CS18225801	<u>1,759,094</u>
Total for Federal Grantor Agency			<u>3,373,752</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF GARY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2002
(Continued)

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>			
Pass-Through Lake Area United Way Emergency Food and Shelter National Board Program	83.523	Phase 21	\$ 10,000
Total for Federal Grantor Agency			<u>10,000</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Indiana Family and Social Services Administration Child Care Cluster Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	45-02-1A-0732	<u>256,045</u>
Total for Cluster			<u>256,045</u>
Pass-Through Indiana Department of Health Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	196-3	<u>41,776</u>
Pass-Through Indiana Family and Social Services Administration Social Services Block Grant	93.667	04-03-5A-0732	<u>58,537</u>
Pass-Through Indiana Department of Health HIV Prevention Activities - Health Department Based	93.940	AIDS 196-9 AIDS 196-11	16,623 <u>25,506</u>
Total for Program			<u>42,129</u>
Block Grants for Prevention and Treatment of Substance Abuse	93.959	SAPT 196-5 00B1-IN-SAPT	72,502 <u>78,741</u>
Total for Program			<u>151,243</u>
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	H25/CCH504340-12	<u>131,304</u>
Maternal and Child Health Services Block Grant to the States	93.994	6 B04 MC 00292-06	<u>185,792</u>
Total for Federal Grantor Agency			<u>866,826</u>
Total Federal Awards Expended			<u>\$ 21,406,516</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF GARY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Gary (primary government) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Subrecipients

Of the federal expenditures presented in the schedule, the primary government provided federal awards to subrecipients as follows for the year ended December 31, 2002:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community development block grants/entitlement grants	14.218	\$ 1,010,658
Emergency shelter grants program	14.231	221,287
Home investment partnerships program	14.239	1,497,111
Empowerment zones program	14.244	3,190,128

Note 3. Loans Outstanding

The primary government had the following loan balances, with continuing federal compliance requirements, outstanding at December 31, 2002. These loan balances outstanding are also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	Loans Outstanding
Economic development initiative grants	14.218	\$ <u>75,000</u>

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weaknesses identified? yes

Reportable conditions identified that are not considered to be material weaknesses? none reported

Noncompliance material to financial statements noted? yes

Federal Awards:

Internal control over major programs:

Material weaknesses identified? no

Reportable conditions identified that are not considered to be material weaknesses? none reported

Type of auditor's report issued on compliance for major programs: Unqualified for all programs except for Empowerment Zones Program and Welfare-to-Work, which were qualified.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
	CDBG - entitlement and (hud – administered) small cities cluster
14.244	Empowerment zones program
17.253	Welfare-to-work grants to states and localities
66.606	Surveys, studies, investigations and special purpose grants

Dollar threshold used to distinguish between Type A and Type B programs: \$618,945

Auditee qualified as low-risk auditee? no

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings

FINDING NO. 2002-1. CAPITAL ASSET RECORDS

The following deficiencies were found in the City's capital asset records:

1. The City's capital asset listing did not include infrastructure assets. With the implementation of GASB Statement No. 34, the City should now be capitalizing the current year infrastructure acquisitions. The City did have an inventory of capital assets prepared, but no infrastructure assets were included.
2. The City's capital asset listing did not include some assets that were purchased during 2002. The listing did not include \$1,593,126 in construction work in progress recognized as accounts payable, and \$664,939 in police cars.
3. The City's capital asset listing included some assets that should not have been listed. The listing included the purchase of two ambulances during 2002. Upon a review of board minutes and inquiry, no ambulance purchase was made in 2002.
4. Estimates were used instead of actual costs in the City's capital asset listing for additions in 2002. The use of estimates instead of actual 2002 costs resulted in variances between the additions per the capital asset record and disbursements for capital assets in the expenditure records.

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. (Standards Section of GASB 34, Paragraph 19)

Prospective reporting of general infrastructure assets in the statement of net assets is required beginning at the effective date of this Statement. (Standards Section of GASB 34, Paragraph 148)

Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standards setting bodies and also with various accounting guides, manuals and other publications. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Accounting records and other public records must be maintained in a manner that will support accurate financial statements. Anything other than an unqualified opinion on the Independent Auditors' Report on the financial statements may have adverse financial consequences with the possibility of an increase in interest rate cost to the taxpayers of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Government, Section 32, states in part: "(1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property. (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years."

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We recommended that officials maintain a complete and accurate record of all capital assets owned by the City.

Section III – Federal Award Findings and Questioned Costs

FINDING NO. 2002-2. REPORTING - ANNUAL REPORT

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Empowerment Zone
CFDA Number: 14.244
Federal Award Number: EZ-99-IN-0004

The City of Gary prepared the Empowerment Zone Annual Report. We tested twenty-two of the Zone Activities included on the annual report. The Annual Report did not agree with the supporting documentation presented for audit as follows:

1. There was no supporting documentation found for four zone activities reported.
2. Supporting documentation presented for thirteen of the zone activities did not agree with the report.
3. From the documentation presented for five of the zone activities reported, we could not determine the total of the residents trained or placed in jobs.

The Executive Director of the Empowerment Zone stated that there was a transition in key personnel regarding the capturing of the data and the supporting documentation for the annual report.

According to 24 CFR Part 598 Sec. 415 (a), Empowerment Zones designated in accordance with this part must submit periodic reports to HUD. These reports must identify the community, local government and State actions that have been taken in accordance with the strategic plan and provide notice of updates and modifications to the strategic plan.

OMB Circular A110 Subpart C 51 (a) states: ". . . Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award."

OMB Circular A110 Subpart C 53 (b) states: ". . . Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Federal awarding agency."

The City did not comply with the requirement to retain adequate documentation in support of the zone activity shown on the annual report for residents trained and placed in jobs. The lack of supporting documentation for the annual report of zone activities does not allow for determination of compliance with the strategic plan. This could jeopardize future grant funding.

We recommended that the City of Gary implement procedures to adequately capture and retain data in support of the Empowerment Zone Annual Report.

CITY OF GARY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING NO. 2002-3. REPORTING - COMPETITIVE GRANT
CUMULATIVE QUARTERLY FINANCIAL STATUS REPORT

Federal Agency: U.S. Department of Labor
Federal Program: Welfare-to-Work Grants to States and Localities
CFDA Number: 17.253
Federal Award Number: Y-7204-4-00-81-60

The City of Gary prepares Welfare-to-Work (WtW) Competitive Grant Cumulative Quarterly Financial Status Reports (ETA-9068-1). The data reported for the participant summary Items 10(a)(1) and 10(a)(2), Items 10(b)(1) through 10(b)(3) and Items 17 through 20, for the December 31, 2002, report, were cumulative since the inception of the grant in 1999.

The general instructions for the quarterly reports (ETA-9068-1) provide that participant characteristics and summary data are required to be reported. According to instructions for Section III Participant Summary, Items 10(a)(1) and 10(a)(2), Items 10(b)(1) through 10(b)(3) and Items 17 through 20, are cumulative aggregate entries retroactive to the effective date of the WtW 1999 Amendments (January 1, 2000). All other items in the Section III Federal Participant Summary are cumulative aggregate entries since the inception of the grant.

The result of the failure to comply with the instructions is the over-reporting of participant counts for those categories reflecting data retroactive to January 1, 2000.

The reported participants count did not agree with the supporting documentation presented for audit. The City's Master List of participants at December 31, 2002, had 654 participants of which forty were ineligible. After allowance for the forty ineligible participants the Master List had 614 participants. The total participants served in Item 10 of the Competitive Grant Cumulative Quarterly Financial Status Report (ETA-9068-1) at December 31, 2002, was 519. This resulted in an under-reporting of 95 participants served.

According to the general instructions for the quarterly reports (ETA-9068-1) for Section III Participant Summary (Items 10. Total Participants Served), the City is to enter the cumulative aggregate number of the WtW clients served under the grant. If a client ceases to be served under the program and then returns for additional services, the client is to be counted again.

The City did not comply with the program requirement to adequately record and report the WtW program participant data as required by the grantor agency.

The City's Program Administrator stated that the error in the cumulative aggregate reporting was an oversight.

We recommended that the City comply with the reporting requirement to prepare the quarterly reports in accordance with the instructions established by the grantor agency. We also recommended that the City maintain supporting documentation that accurately reflects the number of participants served.



City Of Gary

Department of Finance

401 Broadway

Gary, Indiana 46402

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SCOTT L. KING

Mayor

GERALDINE B. TOUSANT

Deputy Mayor

HUSAIN G. MAHMOUD

Director of Finance

M. CELITA GREEN

Deputy Controller

Summary Schedule of Prior Audit Finding

FINDING NO. 2001-3 & 2001-4

Reporting-Competitive Grant
Cumulative Quarterly Financial
Status Report

ORIGINAL SBA AUDIT REPORT NO: B16845

FISCAL YEAR 2002

AUDITEE CONTACT PERSON:

M. Celita Green

TITLE:

Deputy Controller

PHONE:

(219) 881-1363


STATUS OF FINDING:

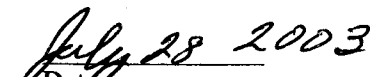
To more adequately record and report WTW program costs and activities, spreadsheets and customized software are being utilized. Coordinators complete a Participant Tracking Form which reports the participant's name, social security number, eligibility category, date, and reason, along with participant's personal characteristics. This information is inputted into a software program and a Participant Master List is produced for each geographical area.

Costs are compiled from invoices and payroll reports, then entered into a spreadsheet to produce an Expenditure by 70/30 Category. This report shows direct participant costs and other allocated cost, such as applicant drug screens, and administrative staff salaries allocated into 70/30 categories. These costs are further defined in an Expenditure by Participant Report.

The coordinators complete Verification of Employment forms for each participant working. This form reports where participants are employed, date, wages, and length of employment. They are updated to show any changes of employment or wages at 6 mos. and after one year.

Before quarterly reports are prepared, the MIS employee reconciles the spreadsheet data with the RDS financial system data. Please see attached sheet detailing sources of documentation for quarterly report.


Husain Mahmoud, City Controller


Date July 28 2003

WELFARE TO WORK - FUTURES PROGRAM

<u>Source Documents</u>	<u>M.I.S. Output</u>	<u>Reporting Requirement</u>
Grant Agreement		QFSR Line 1
WtW Participant Tracking Forms	Check Detail/Expenditure Journal	QFSR Line 2
WtW Invoice (Paid w/backup)	Vendor Summary Report	
WtW Payroll Timesheet		
Finance Dept - Account Activity Report		
Allocation Policy	Expenditures by 70/30 Report	QFSR Lines 3-6
	Excel Expenditures by 70/30 Report	
Check Detail/Expenditure Journal	WtW PO Log	QFSR Line 7
Finance Dept - Account Activity Report		
Finance Dept - PO Listing Report		
WtW Participant Tracking Forms	Master List	QFSR Lines 10,11;17- 20
	Characteristics List	
	Excel Summary Reports	
Previous Quarter's QFSR		QFSR Lines 12-16
QFSRs from Coordinators		
WtW Participant Tracking Forms		
Employment Verification Forms		
Case Notes		
U.I. Records & Projections		
	Other Outputs:	
	Expenditures by Participant	
	Expenditures by Federal Budget	
	Budget vs. Actual Expenditures	



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CORRECTIVE ACTION PLAN

Finding No, 2002-1 Capital Asset Records

Auditee Contact Person:	Husian G. Mahmoud
Title Contact Person:	Director of Finance
Phone Number:	(219) 881-1363
Expected Completion Date:	December 31, 2003

CORRECTION ACTION:

In order to assure compliance to the recent audit results and comments, the appropriate corrective actions will or have taken place as follows:

Response to Finding # 1

The City of Gary is currently making provisions to account for all of its infrastructure to be recorded on its 2003 financial statements. We are utilizing information from the City's Public Works Department, Department of Finance, and outside resources to statistically account for this historical data in order to value infrastructure accurately.

Response to Finding # 2

The amount \$1,593,126 in construction work-in-progress and \$ 664,939 in police cars were misclassified in error on the City of Gary fixed assets report and were not recorded by the Fixed Management Asset Company upon preparing our capital asset report. We are currently adjusting our records to reflect these changes.

Response to Finding #3


There were two ambulance remounted in 1999 with new equipment and chasses, The information was valued as of 2002 erroneously by Maximus, the fixed assets company,

on the City of Gary capital assets report. We have notified the fixed asset management company for needed adjustments in order to correct our records.

Response to Finding #4

As the City of Gary continues to makes every effort to be in compliance to Standards Section of GASB 34 preparation strives to become a priority.

Currently, the City of Gary Finance Department is reviewing the 2002 additions as it relates to the Fixed Assets report prepared by Maximus. Items were valued by three approaches which were based on Cost, Sales, and Income . We will be making adjustments, as needed, to supply original cost information for those additions in 2002.


Husain G. Mahmoud, Director of Finance

Dec. 10, 2003
Date



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Deputy Controller

CORRECTIVE ACTION PLAN

August 11, 2003

FINDINGS NO. 2002-2 REPORTING- ANNUAL REPORT

Federal Agency: U.S. Department of Housing and Urban Development

Federal Program: Empowerment Zone

CFDA Number: 14.244

Federal Award Number: EZ-99-IN-0004

Auditee Contact Person: Venus Cobbs

Title of Contact Person: Program Administrator

Phone Number: (219) 886-9047

The Gary, East Chicago, Hammond Empowerment Zone prepared the Empowerment Zone Annual Report. Supporting data/documentation in files showed a variance in data submitted in the annual report. In some cases, documentation showed more participants than what was reported. Of the twenty-two files reviewed, eleven programs received Empowerment Zone funding. Programs monitored were inconsistent in gathering the proper data and documentation to show performance outcomes of milestones. Programs not achieving milestones were not reimbursed for services and in two cases contracts were terminated. In order to assure that appropriate documentation is received and activities monitored are achieving proposed goals and performance outcomes, a monitoring corrective action plan was developed and is currently being implemented.

1. A monitoring form was revised to secure consistent information from Zone projects regarding activities and performance outcomes.
2. Site visits are conducted monthly, in which a file review will be conducted each time to verify data and documentation provided by Zone programs.
3. A monthly reporting format was revised to clarify data reported on each program activity. A verification form, verifying employment or training, must be completed and signed by the employer or training entity. Verification forms must be submitted with monthly report in order to receive payment for services.
4. Empowerment Zone monitoring staff will maintain accurate files on each Zone activity. Quarterly reports will be submitted to Coordinating Council monitoring committee with verified data and information regarding status of each Zone program. This process will ensure accuracy of data submitted for the annual report and compliance with OMB Circular A 110 Subpart C 51 (a) and 53 (b).

FINDINGS NO. 2002-2 REPORTING – ANNUAL REPORT

Internal Controls Over Receipts:

According to the audit results, inconsistencies were found in our receipt process. The following corrective actions have been taken and are being utilized.

1. A prescribed City receipt form has been created and is currently being utilized.
2. Receipts are immediately prepared, recorded and issued at the time of transaction.
3. All receipts collected are being deposited the same day received. Collections are accompanied by a Quietus form describing payment and fund number for deposit. A receipt number is included along with signatures of staff responsible for deposit. A receipt is immediately provided by the City of Gary's Finance Department verifying deposit information. Finally, a deposit logbook is being maintained with the appropriate signatures and receipt numbers.
4. A fee schedule has been developed describing fees for all program activities requiring payment.

Travel Allowances:

Corrective action has been taken in developing a proper method of reimbursement for travel expenses.

Inter-local Agreements:

An inter-local agreement was developed by the cities of Gary, East Chicago and Hammond prior to contract award. The inter-local agreement specified percentage of funds allocated per each city and the responsibility of the City of Gary as Fiscal Manager. The existing inter-local agreement will be modified to specify mission and goals of loan programs and other Zone activities.

Disbursements:

A resolution has been brought before the Coordinating Council specifying the purpose and use of loan repayments. We expect adoption of the resolution by August 26, 2003.

Corrective action has been taken to correct a loan payment made by the Gary Urban Enterprise Association which included an interest charge which may have not been in accordance with the loan agreement.

The Gary, East Chicago, Hammond Empowerment Zone's mission is to assist in spurring new business growth and economic development for our area. We are charged with accomplishing this in compliance with State and Federal regulations that pertain to the Empowerment Zone initiative. The Empowerment Zone has committed itself to implementing all correction mentioned above.

Public Works Project – Environmental Remediation

The Empowerment Zone reimbursed the City of Gary \$150,000.00 for environmental remediation conducted at Buffington Harbor. This is an approved project specified under the Brownfield Implementation Plan. Documentation was submitted showing a bid process for work to be conducted at Buffington Harbor. However, the reimbursement provided by the Empowerment Zone was additional work required in which a change order was not issued.

To address this issue the following corrective action will be implemented:

1. Implementation Plans will be revised to include specific milestones regarding each work activity required for each project. Milestones will also include steps that each city will take in assuring that proper procedures are being implemented to include bidding and proper board approvals for all public work projects in excess of \$75,000.00.
2. A resolution will be developed and approved by the Executive Committee, Oversight Committee, and Coordinating Council, of the Empowerment Zone, specifying required documentation and verification needed for public work projects prior to the approval for reimbursement.


Husain Mahmoud, City Controller

9/12/03
Date



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Deputy Controller

CORRECTIVE ACTION PLAN

August 26, 2003

FINDINGS NO. 2002-3 REPORTING - COMPETITIVE GRANT CUMULATIVE QUARTERLY FINANCIAL STATUS REPORT

Federal Agency: U.S. Department of Labor

Federal Program: Welfare to Work Grants to States and Localities

CFDA Number: 17.253

Federal Award Number: Y-7204-4-00-81-60

Auditee Contact Person: Mary Felton

Title of Contact Person: Program Administrator

Phone Number: (219) 881-5202

The City of Gary prepares Welfare to Work (WtW) Competitive Grant Cumulative Quarterly Financial Status Report (ETA-9068-1). The data reported for the participant summary items 10(a)(1) and 10(a)(2), items 10(b)(1) through 10(b)(3) and items 17 through 20, for the December 2001 report, were cumulative since the inception of the grant in 1999.

Please see attached corrections to be made per the quarter ending 9/30/03 and all supporting documents.

Items:

10(a)(1)

10(a)(2)

10(b)(1) through 10(b)(3)

17 through 20

The data to be reported in the 9/30/03 QFSR for the participant summary items 10(a)(1) and 10(a)(2), items 10(b)(1) through 10(b)(3) and items 17 through 20, for the September 30, 2003 report are cumulative since January 1, 2000 of the grant.

***Please note that our system is only recording 515 names as it shows on the Participants Characteristics Report, as opposed to the 540 names that are showing on the Expenditures by Participants Report. We can't at this time get the system to locate the missing 25 names, due to the fact that our reports are not merging.


HUSAIN MAHMOUD, CONTROLLER

9/26/03
DATE

CITY OF GARY
EXIT CONFERENCE

The contents of this report were discussed on December 16, 2003, with Mr. Husain G. Mahmoud, City Controller; Ms. Geraldine B. Tousant, Deputy Mayor; Ms. Mary Brown, Common Council Member; and Ms. Celita Green, Deputy Controller.